

**THE UNIVERSITY OF HULL**

**FROM NATURAL ECONOMY TO CAPITALISM: THE STATE  
AND ECONOMIC TRANSFORMATION IN PERAK, MALAYSIA  
c.1800-2000**

**being a Thesis submitted for the degree of  
Doctor of Philosophy  
in the University of Hull**

**By**

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## **ABSTRACT**

The thesis provides the first description and analysis of long-term economic change and development in the Peninsular Malaysian State of Perak from about 1800 to 2000. Although a considerable number of studies have been undertaken on the colonial economy of Perak focusing on tin and rubber production, given the vital importance of these commodities and of Perak's position in the British imperial enterprise, very little research has been done in relating the state's pre-colonial status and its colonial development to post-independence transformations.

The thesis coordinates and re-evaluates the material on colonial period concentrating particularly on the available statistical data and the relations between tin, rubber and rice. It then links colonial developments with contemporary change by examining the three key economic elements of land, labour and capital, and utilises a considerable amount of government economic data on the recent period. It also considers the relations between the policies and practices of the colonial and post-colonial state and processes of economic development. It argues that the role of the state, though different and changing, has been vitally important in promoting and underpinning economic transformations from British intervention in 1874 until the present. The major change can be characterised as the transition from a primarily 'natural' economy to a 'state capitalist' one.

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## TABLE OF CONVERSIONS

1 *bahara* = 3 *pikul* = about 400 lbs  
 1 hectare = 2.471 acres  
 1 *pikul* = 60.48 kg

## GLOSSARY

<i>arak</i>	fermented drink
<i>bahara</i>	measure of weight approximately 400 lb.
<i>bendang</i>	padi field (wet padi land)
<i>bumiputera</i>	literally, 'son of the soil'; indigenous people
<i>chettiar</i>	Indian money-lender
<i>gantang</i>	volume measurement equivalent to 1 gallon or 4.54 litres
<i>gotong royong</i>	mutual help
<i>huma</i>	dry or hill padi
<i>hun system</i>	tin extraction operations based on profit sharing among all involved with the leader commanding a bigger share.
<i>istana</i>	palace
<i>jajahan</i>	territory/district
<i>kampung</i>	village
<i>Kampung Cina</i>	Chinese villages
<i>kangany system</i>	a labour recruitment system that requires sending a <i>kangany</i> (Tamil foreman) back to India to recruit cheap labour.
<i>kerah</i>	corvée labour
<i>keris</i>	traditional Malay dagger
<i>kibbutzim</i>	communal farms
<i>kongsi</i>	large dormitories housing workers
<i>kuasa</i>	authority
<i>ladang cultivation</i>	shifting cultivation
<i>mentri</i>	minister; state justiciar
<i>menteri besar</i>	chief minister
<i>mukim</i>	a sub-district with its own administrative structure
<i>negeri</i>	Malay state
<i>orang besar-besar</i>	territorial chief
<i>padi</i>	paddy rice - rice in the husk
<i>parang</i>	a stout straight knife
<i>penghulu</i>	village headman
<i>perahu</i>	boat
<i>pikul</i>	measure of weight equal to 60.33 kg.
<i>rakyat</i>	subjects
<i>Skim Perintis Pembalakan</i>	Logging Pioneering Scheme
<i>surat kuasa</i>	empowering document
<i>tanah hidup</i>	cleared land and under cultivation
<i>tanah mati</i>	unappropriated or abandoned land
<i>zakat</i>	religious tithes

## ABBREVIATIONS

ATPC	Association of Tin Producing Countries
BOOT	build-operate-own-transfer
BOT	build-operate-transfer
COI	Centre of Investment
DID	Drainage and Irrigation Department
EOI	Export-Oriented Industrialisation
EPU	Economic Planning Unit
FELCRA	Federal Land Consolidation and Rehabilitation Authority
FELDA	Federal Land Development Authority
ffb	fresh fruit bunches
FIDA	Federal Industrial Development Authority
FMS	Federated Malay States
GDP	Gross Domestic Product
HICOM	Heavy Industries Commission of Malaysia
ICA	International Commodity Agreement
IIA	Investment Incentives Act
INRA	International Natural Rubber Agreement
INRO	International Natural Rubber Organization
ISI	Import-Substitution Industrialisation
ITA	International Tin Agreement
ITC	International Tin Council
JMBRAS	Journal of the Malaysian Branch of the Royal Asiatic Society and Journal of the Malayan Branch of the Royal Asiatic Society
JSBRAS	Journal of the Straits Branch of the Royal Asiatic Society
KLTM	Kuala Lumpur Tin Market
MAS	Malay Administrative Service
MCKK	Malay College Kuala Kangsar
MIDA	Malaysia Industrial Development Authority
NDP	National Development Plan
NEP	New Economic Policy
PETRONAS	Petroleum Nasional Berhad
PIO	Pioneer Industries Ordinance 1958
PGG	Perak Government Gazette
PNB	Permodalan Nasional Berhad
PROTON	Perusahaan Otomobil Nasional
PSADC	Perak State Agriculture Development Corporation
PSDC	Perak State Development Corporation
RISDA	Rubber Industry Smallholders' Development Authority
SADC	State Agricultural Development Corporation
SEDC	State Economic Development Corporation
SMI	Small-Medium Industries
UPA	United Planters Association



## **CHAPTER ONE**

### **INTRODUCTION:**

### **FROM NATURAL ECONOMY TO CAPITALISM: THE STATE AND ECONOMIC TRANSFORMATION IN PERAK, MALAYSIA c.1800-2000**

#### **1.1 The state and economic development**

Before introducing my Perak case-study, I need to provide some indication of the concepts which have informed my thinking, approach and analysis in the examination of state intervention in economic processes. In my view, the relationship between the state and economic development is of crucial importance if a developing country like Malaysia is to emerge and be transformed from an economically dependent to a modern nation. Even so, economic development has been, and continues to be a central goal for all governments. From early scholars such as Adam Smith, David Ricardo, Karl Marx, John Maynard Keynes, and Joseph Schumpeter, competing conceptions of economic development and transformation have proliferated and have been debated at length by contemporary scholars.<sup>1</sup> But, in my view, no one perspective or approach is totally satisfactory, particularly with reference to the developing world. This is because of the variations in the political, economic, social, cultural and historical circumstances of individual countries.

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<sup>1</sup>A considerable literature is available which examines major theories in development, see for example Martinussen, J. (1999). *Society, State & Market: A Guide to Competing Theories of Development*, London and New York: Zed Books Ltd; Hunt, D. (1989). *Economic Theories of Development: an Analysis of Competing Paradigms*, Savage, Maryland: Barnes & Nobles Books; Ahiapor, J.C.W.(1990). *Multinationals and Economic Development: An Integration of Competing Theories*, London: Routledge; Peet, R. and Hartwick, E. (1999). *Theories of Development*, New York: The Guilford Press.

Let me commence with definitions. The term 'state' is used in a number of ways and is frequently mentioned as an institution of importance in the development process. More often, no specific and agreed definition of this term is given. In some cases 'state' is used to denote 'the government' while in others the tendency is to conceive it as an independent institution, which functions in relation to the resolutions made by rational decision-makers. It is also referred to in its role as an important initiator and catalyst for growth and development. Barnett (1988) suggests that more frequently the term 'state' is used in either one of two ways: first, the Milliband view which emphasises the state as the embodiment of the ruling class and its associated administrative, political, and legal arrangements which assume the task of 'protecting and preserving private property and the power of the bourgeoisie'; and second, the Poulantzas view which places weight on the state as an apparatus acting in the interests of the ruling class.<sup>2</sup> Martinussen (1999) on the other hand argues that the term 'state' can be described along a continuum from the state as society-centred to the state as relatively independent of society.<sup>3</sup> In a Weberian ideal-type perspective, Migdal (1988) defines the state as 'an organisation, composed of numerous agencies led and co-ordinated by the state's leadership (executive authority) that has the ability or authority to make and implement the binding rules for all the people as well as the parameters of rule making for other social organisations in a given territory, using force if necessary to have its way.'<sup>4</sup> In this thesis I conceive of the 'state' as referring to the governing authorities of the territory and whatever resources are utilised by these authorities in pursuit of their policies. I do not conceive of it in social

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<sup>2</sup>Barnett, T. (1988). *Sociology and Development*, London: Century Hutchinson Ltd., pp.131-2.

<sup>3</sup>Martinussen (1999), pp.221-2.

<sup>4</sup>Migdal, J. S. (1988). *Strong Societies and Weak State*, Princeton, NJ: Princeton University Press, p.19.

class terms. Importantly, the state is also regarded as a principal agent and catalyst of development.

Defining 'economic development' requires us first to consider the term 'development'. While in specific terms it means the utilisation of societal productive resources to improve the living standards of the poor segment of the society, in a broader perspective the term signifies the general improvement in economic, social, cultural, and political condition of a given unit, body or country; all these dimensions are linked in a complex manner.<sup>5</sup> No consensus has been reached on the term; it has been defined in a variety of ways so that a survey in the mid-1980s shows 72 different meanings attached to it.<sup>6</sup> However, the term 'economic development' is usually employed to refer to the continuous process of creating wealth which in turn entails the utilisation of the crucial productive factors of capital, land, labour, natural resources and technology to generate goods and services in accordance with the supply and demand of markets. The role of the economic 'developer' is therefore directed to participating in the creation of national wealth for the benefit of both consumers and producers. This can be achieved by facilitating either the expansion of job opportunities or the tax base or the efficient redeployment of local resources such as land, labour, resources (such as minerals) and capital.<sup>7</sup>

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<sup>5</sup>See Peet and Hartwick (1999), p.1.

<sup>6</sup>Riggs (1984) cited in Martinussen (1999), p.35.

<sup>7</sup>See Malizia, E., 'Redefinition of Economic Development' in *Economic Development Review*, Vol. 12, Spring 1994.

In some definitions, economic development is viewed as comprising a process of increasing income per capita, either real or potential.<sup>8</sup> The World Bank until the early 1970s used this approach. There are also those that define it as the increase in both the total as well as per capita income and products together with social improvements.<sup>9</sup> A more widely accepted notion is one which defines economic development as a process in which 'the real per capita income of the country increases over a long period of time – subject to the stipulations that the number of people below an absolute poverty line does not increase, and that the distribution of income does not become more unequal'.<sup>10</sup> The success of this process will only be achieved when there is a more balanced income and property distribution that allows overall societal development.<sup>11</sup> One element that is common in most, if not all, of the definitions, however rests on the agreement that economic development is a continuous process. Its long-term nature and the ever-changing world therefore require that governments should always be prepared to adopt fresh and proactive approaches to counteract development problems and obstacles as they occur.

The economic development that has taken place in most of the developing world was much influenced by the development of capitalism as an integral part of colonialism and international mercantilism. Presented as a system of commodity production, capitalism gives emphasis to the importance of exchange values that have a definite economic

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<sup>8</sup>Robbins, Lord (1968). *The Theory of Economic Development in the History of Economic Thought*, London: MacMillan and Co Ltd., p.151; see also Rostow, W. W. (1960) *The Stages of Economic Growth*, Cambridge: Cambridge University Press; and Lewis, W. A. (1955). *The Theory of Economic Growth*, London: Allen & Unwin.

<sup>9</sup>Galbraith, J. K. (1964). *Economic Development*, Cambridge: Harvard University Press, pp.1-12.

<sup>10</sup>Meier, G. M. (1989). *Leading Issues in Economic Development*, New York: Oxford University Press, p.6.

<sup>11</sup>Cardoso, F. H. (1979). *Towards a New Strategy for Development*, New York: Pergamon Press.

relation and require the presence of a market where goods are exchanged.<sup>12</sup> There is also a clear separation between the ownership of production and the individuals performing those production functions. Profits gained from the sales are reinvested in economic production and, in the process, expand capitalist wealth and the scale of activities. At a lower level, the availability of goods in the market stimulates the consumers to seek improvement in their income; and the market also permits more profit to be made by capitalists via new and technologically improved products. The expansion and the aggregate contributions of all capitalist activities generate economic development in capitalist countries. In the developing countries, the system of regulated capitalism is more often adopted compared to what is usually called 'laissez-faire capitalism'. Despite its overall ability to improve the living standards of the majority of the population, capitalism also has its critics who draw attention to such matters as the exploitation and impoverishment of the working class.<sup>13</sup> The development of capitalism in developing nations has also often been with the support and the assistance of the state.

Another issue that requires clarification when assessing economic development and transformation is the structure of the state itself, in this particular case 'state capitalism'. It is not the capitalist economy that determines whether the state should be formally labelled as capitalist; rather it depends strongly on the state's objectives in organising structures which enable the functioning of a capitalist economy.<sup>14</sup> In other words, the

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<sup>12</sup>Giddens, A. (1971). *Capitalism and Modern Social Theory*, Cambridge: Cambridge University Press, p.46; Sweezy, P. M. (1968). *The Theory of Capitalist Development*, New York and London: Modern Reader Paperbacks. pp.56-9.

<sup>13</sup>For a cultural critique of capitalism, see Leeman, W. A. (1977). *Centralized and Decentralized Economic Systems*, Chicago: Rand McNally College Publishing Company, p.321.

<sup>14</sup>Strinati, D. (1979), 'Capitalism, the State and Industrial Relations' in Crouch, C. (ed.)(1979). *State and Economy in Contemporary Capitalism*, London: Croom Helm, p.193.

established structures will then enable competitive capitalism to develop. Jaguaribe (1973) suggests that state capitalism can only work with the full backing of both the urban and rural segments of the middle class in the modernising sector which is then able to face up to the traditional upper-class and their allies.<sup>15</sup> While the state remains the key driver for economic development, the involvement of the private sector is not suppressed.

The post-World War II period saw the emergence of competing theories of economic development from both the classical and neoclassical schools of thought. Within these theories, emphasis has always been focussed on the importance of capital, human resources, and technology. Schumpeter's (1934) main contribution, for example, has been the distinction between 'economic growth' and 'economic development' along with the crucial presence of entrepreneurial functions in order to succeed.<sup>16</sup> Other conceptions that have contributed towards broadening our understanding of the processes of economic development, to name a few, include those of Rostow's (1960) "stages of growth", Nurkse's (1953) "balanced growth", Lewis' (1955) "modernisation", Hirschman's (1958) "unbalanced growth", Frank's (1967) "metropolises and satellites", Amin's (1976) "centre and periphery", and Wallerstein's (1979) "capitalist world system".<sup>17</sup> In the 1980s the concept of the developmental state began to gain popularity among scholars in explaining development processes. Some of its central features include the need to create and

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<sup>15</sup>Cited in Roxborough, I. (1979). *Theories of Underdevelopment*, London and Basingstoke: The Macmillan Press Ltd., p.24.

<sup>16</sup>Schumpeter, J. A. (1934). *The Theory of Economic Development*, Cambridge: Harvard University Press.

<sup>17</sup>See Rostow, W. W. (1960). *The Stages of Economic Growth*, Cambridge: Cambridge University Press; Nurkse, R. (1953). *Problems of Capital Formation in Underdeveloped Countries*, Oxford: Blackwell; Lewis, W. A. (1955). *The Theory of Economic Growth*, London: Allen & Unwin; Hirschman, A. O. (1958). *The Strategy of Economic Development*, New Haven: Yale University Press; Frank, A. G. (1967). *Capitalism and Underdevelopment in Latin America*, New York: Monthly Review Press; Amin, Samir (1976). *Unequal Development*, Sussex: Harvester Press; Wallerstein, I. (1979). *The Capitalist World Economy*, Cambridge: Cambridge University Press.

regulate economic and political relationships to enable sustainable industrialisation activities, and the encouragement of public-private cooperation in economic development which correspond well with Malaysian experiences. This conception however places economic growth, productivity and competitiveness as the most important items on the agenda of the state without appropriate consideration given to other elements such as income distribution and social welfare.<sup>18</sup> The emphasis is therefore concentrated on important private interest groups, particularly big business.

The division between a free enterprise capitalist system on the one hand and a socialist system on the other, also gives rise to a third system which comprises a mixture of both systems. A free enterprise capitalist system has the least state intervention in the economy while a socialist system the most. The mixed economic system calls for some state intervention, and its level may vary from case to case. The free enterprise capitalist system has been the main focus of classical and neo-classical economic proponents, who since the 19<sup>th</sup> century, have argued continuously for the detrimental effects and consequences of state intervention in economic development. Although among them different approaches towards the issue were taken, they were of the opinion that the government's role in the economy should be minimal. The assumptions made are that markets are naturally and universally efficient mechanisms that enable individuals to seek maximum gains and the spirit of the enterprise will promote growth. The state has only

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<sup>18</sup>See Evans, P. B., 'Predatory, Developmental and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State' in *Sociological Forum*, Vol. 4, No. 4, 1989; Woo-Cumings, M. (1999) *The Developmental State*, New York: Cornell University Press; Ha-Joon Chang, 'The Economic Theory of Developmental State' in Woo-Cumings (ed.)(1999). Johnson (1982) in his concept of the capitalist developmental state, however, emphasized the need to achieve social goals as part of state economic development. [Cited in Martinussen (1997), p.239; also Ziya Onis, 'The Logic of the Developmental State' in *Comparative Politics*, 1991, October.]

to come up with effective public policies to give full expression to the free operation of markets. Where this happens, development occurs; when it is obstructed, notably by state intervention, development suffers. The existence of rent seekers also represents a political and economic threat to the operation of efficient markets in a free enterprise capitalist system.

Adam Smith (1776), the founder of classical economics, in his famous book *The Wealth of Nations* argued strongly for the limited role of government in economic development.<sup>19</sup> His notion of government was restricted in its role to the provision of internal and external security, and its limited participation and responsibility towards public works and the establishment of state institutions to facilitate governance. Individuals are the ones who should be encouraged to pursue wealth accumulation, which in turn benefits all. Even with such a concept Smith believed that the ultimate objective of government is to strive to provide prosperity for the state or commonwealth. Given this objective, the state as a non-market organization is obliged to undertake, in most cases, administrative and infrastructural development projects including the provision and maintenance of security and justice, information, and basic public services.<sup>20</sup> Being a strong proponent of the laissez-faire approach, Smith acknowledged the efficacy of the government's role in protecting rights. This notion too has been emphasised by North (1981) and Eggertsson (1990) who argue that the increase in economic wealth for the

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<sup>19</sup>Hawkins, E. L. (1905). *An Abstract of Adam Smith's Wealth of Nation*, 3<sup>rd</sup> Edition, London: Simpkin, Marshall, Hamilton, Kent & Co., p.57.

<sup>20</sup>Krueger, A. O., 'Government Failures in Development' in *Journal of Economic Perspectives*, 4(3), 1990. pp.9-24; Brunner, K., 'The Poverty of Nations' in *Business Economy*, 1985, January, pp.5-11.



population via minimal transactional costs could be achieved by establishing appropriate structures of property rights by the state.<sup>21</sup>

Milton Friedman's (1962) notion of the role of government also concentrates on the citizen's freedom from internal and external security threats which embraces the preservation of law and order, the enforcement of private contracts, and the encouragement of the development of competitive markets.<sup>22</sup> It is suggested that the private sector will provide the necessary checks-and-balances on the powers of the state sector thereby preserving both the freedom of speech and of thought.

At the other end of the continuum in the global economy are those inclined towards a socialist system; one major category of this is the central command economy where the production inputs and outputs as well as investment decisions are made through the powers of the government; another is known as market socialism where central governments operate certain socialist principles of redistribution and state involvement, including sometimes the establishment of communes or cooperatives, but within a market system. The appropriate examples of the two systems are the former Soviet-type command economy and the *kibbutzim* (communal farms) of Israel for market socialism.<sup>23</sup> As these systems are outside the scope of my research no further elaboration will be needed.

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<sup>21</sup>See North, D. C. (1981). *Structure and Change in Economic History*, New York: W.W. Norton; Eggertsson, T. (1990). *Economic Behavior and Institutions*, Cambridge University Press.

<sup>22</sup>Friedman, M. (1962). *Capitalism and Freedom*, Chicago: The University of Chicago Press, pp.2-3.

<sup>23</sup>For detailed description of the workings of these economic systems, see Leeman, W.A. (1977). *Centralized and Decentralized Economic Systems*, Chicago: Rand McNally College Publishing Co.

The third global economic system combines both the extremes, and is more generally known as the mixed economy. While the classical and neo-classical supporters are against this approach, the proponents of Keynes supported the expansion of state involvement in the economy. While economic development in itself constitutes a continuous process, the drive to pursue such development activities has to come from the state. While this may not be true in all countries, it is, however, relevant to developing countries and, in particular, the Malaysian case under study. Only then will the economic transformation of society from 'traditional' to 'modern' via state-directed structural changes and the introduction and implementation of secondary and tertiary economic activities help accelerate the transformation process. State-led economic development at least is capable of focussing its activities on the needs of society as a whole and, at the same time, has access to the state apparatuses as mechanisms in the accumulation, redistribution and targeting of resources such as capital and, therefore, as catalysts for growth and development.<sup>24</sup>

Within the framework of analysing state involvement in economic development, particularly from the colonial period onwards, the relationship between state and economy has become increasingly central because it was at this time that capitalism was introduced to the non-capitalist world.<sup>25</sup> The analysis of state-directed economic transformation, within this context, recognises that the "the state and economy cannot be

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<sup>24</sup> Along with it, however, political leaders can also become increasingly involved in economic affairs and use state apparatuses to achieve politically-defined economic objectives, see Clark, C. and Lemco, J. (1998) (eds). *State and Development*, New York: E. J. Brill, p.1.

<sup>25</sup> This is not to say that the capitalist mode of operation was non-existent at all during the pre-colonial period; it existed in all historical societies but was of minimal importance until later in human history.

seen as undifferentiated totalities”.<sup>26</sup> State economic transformation can only be achieved by the interplay between the two: while its distinct structures and processes comprise the economy, the state on the other hand consists of state apparatuses that in most cases are differently related to one another in the functions performed. The state alone cannot perform all the functions for capital accumulation in advancing the capitalist economy. In an ideal operation of capitalism the support of the state in economic processes is not required, as internal mechanisms ensure its continuity free of state involvement.<sup>27</sup> The situation in most nations in the developing world, however, is far from ideal and therefore state involvement has become important for achieving economic development.

In contrast to the early period of economic development in the West where the involvement of the state was more of providing the appropriate economic environment that would facilitate private capital formation, the developing countries in general, at least in the early stage of their development, did not have these capacities. Market efficiency, which is essential for private enterprises to be the drivers of state economic development, was lacking. The inadequacy of the economic conditions and the fragility of private enterprises therefore justified the approach of most of the developing world for state intervention in the economy in order to regulate the market and to ensure sustainability in the long run. The inability of private enterprises to satisfy the accumulation and transformation of capital required in the “take-off” or “big push” stage in the economic development process has forced the state to assume responsibility.<sup>28</sup>

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<sup>26</sup>Strinati (1979), p.194.

<sup>27</sup>Ibid., p.192; Sweezy (1968), p.349.

<sup>28</sup>See Rosenstein-Rodan (1984), ‘Notes on the “Big Push”’ in Meier, G. M. (1989). *Leading Issues in Economic Development*, New York: Oxford University Press, p.281; Mason, E. S. (1958). *Economic*

The continuum so far has focused on the three broad approaches to state development either via the free market, central command, or the mixed economy. The discussion points to the strong need in the developing countries, including in Malaysia, for a mixed economy approach to achieve economic growth and development. Along with the predisposition to adopt the mixed economy approach for development, other conceptions or paradigms tend to be employed with the objective of enhancing the analysis of developing countries.<sup>29</sup> The focus on each of the concepts changes over time as a result of the various debates in development studies which included debates about economic growth, modernisation, and underdevelopment and dependency.<sup>30</sup>

This is where we need to address the issue of uneven development. In a narrow perspective uneven development is seen as the 'unequal access to natural, social, political and economic resources'<sup>31</sup> in a spatial sense. However, in a broader perspective, uneven development should be seen as a manifestation of the dynamic processes that produce unevenness in the functioning of the complex interrelationships of economic, political, and social conditions. The existence and persistence of uneven development is most evident in a capitalist society because capitalism itself is an unevenly developing system.<sup>32</sup> It is not simply the variation in the types and quantities of socio-economic

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*Planning in Underdevelopment Areas: Government and Business*, New York: Fordham University Press, Chapter 2; Sweezy (1968), p.293.

<sup>29</sup> See fn.1.

<sup>30</sup> Other than those stated above there were also others such as increased welfare and human development, dialectical transformation, capacity and development by people, sustainable development, development and security, and development as history.

<sup>31</sup> O'Connor (1989) cited in Parnwell, M. J. G. (1996). *Uneven Development in Thailand*, London: Ashgate Publishing House p.2; Dixon, C. and Drakakis-Smith, D. (1997), *Uneven Development in Southeast Asia*, Aldershot: Ashgate Publishing Limited, p.2.

<sup>32</sup> Duncan, S. and Goodwin, M. (1988). *The Local State and Uneven Development: Behind the Local Government Crisis*, Cambridge: Polity Press, p.61.

activity that differ from place to place to produce imbalances but also of the uneven process of development that derives from the particular character of capitalism itself. Smith (1986) explains that uneven development is the result of the 'continual struggle of opposed tendencies toward differentiation and equalization'<sup>33</sup> and both are inherent in the way capitalism works as an economic and social process. Differentiation occurs as a consequence of the division of labour and the direction of investment where different amounts of surplus can be produced for the same amount of labour. Simultaneously, there are also pressures for equalization of the conditions of production and in the development of productive forces. The state often assumes an important role in intervening in the process of uneven development in the attempt to achieve a more 'even' or 'balanced' result. However, at times, its intervention itself can create unevenness.

The issue of unevenness is also related to the concept of dependency<sup>34</sup> in the structure of the global system which acts to constrain developing countries. The concept first appeared in development studies in Latin America. It rejected liberal theories that argued for the capacity of all countries, given time, to achieve development and for the interests of the developed world in assisting developing countries in such efforts.<sup>35</sup> Instead André Gunder Frank and others argued that it is precisely the 'underdevelopment' of the poor countries that leads to the 'development' of the developed countries; in other words, developed countries depend on the underdeveloped regions for their further

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<sup>33</sup>Smith (1986), p.99 cited in Parnwell (1996), p.3.

<sup>34</sup>While some scholars have considered this perspective as a theory, others like Cardoso, one of its foremost proponents, have resisted this interpretation, see Jomo, K. S. (1988). *A Question of Class: Capital, the State, and Uneven Development in Malaya*, Monthly Review Press/Journal of Contemporary Asia Publishers, p.319.

<sup>35</sup>Frank, A. G. (1966). 'The Development of Underdevelopment' in *Monthly Review*, September, pp.17-31.

development.<sup>36</sup> A number of scholars including Amin (1976) and Cardoso and Faletto (1979) subsequently refined the basic concept of dependency but the primary propositions remain. Generally, the dependency paradigm is based on four assumptions:<sup>37</sup> first, the effects on the development of the economies and societies of the developing world ('the periphery') have been the outcome of their being producers of raw materials and consumers of industrial commodities produced in the developed world; second, the economic and political power of the developed world ('the centre') has ensured that this division of labour will always remain in place;<sup>38</sup> third, the 'distortion' of the domestic economies of developing countries is a consequence of their enforced incorporation into the global economy, including foreign intervention in the periphery's economies in the form of multinational corporations; and fourth, transmission of these economic effects also produces reactions in the social and political domains of dependent countries. The form of dependence that has influenced these transformations in the developing countries has usually been analysed in the context of 'imperialism' or 'colonialism'. Dependency presupposes that it is the structure of the global economy, primarily within the capitalist system, that conditions the socio-economic development of the dependent countries.

The economic transformation of the developing world viewed in terms of concepts of uneven development and dependency is still relevant today; the reliance of developing countries on the developed world is obvious. Developed countries have the upper hand in opting for more beneficial international economic agreements and policies. The call

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<sup>36</sup>See Frank, A. G. (1967). *Capitalism and Underdevelopment in Latin America*, NY: Monthly Review Press.

<sup>37</sup>These assumptions are drawn from Clark and Lemco (1988), p.4.

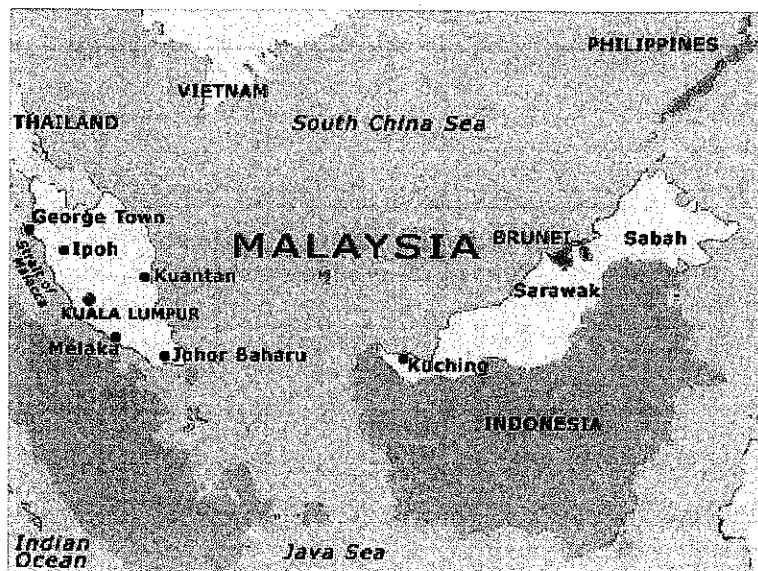
<sup>38</sup>More recently, the expressions 'the North' and 'the South' have been used to describe the developed and developing countries respectively.

from leaders of the developing countries for a more balanced distribution of benefits in the world economy in an effort to minimise global uneven development and dependency has so far achieved very mixed results. Economic liberalisation, which forces developing countries to open their economies, has produced a massive inflow of foreign capital to exploit the available economic opportunities. For the developing host country, it can generate growth but it also usually increases uneven development and dependence on external parties. It is left to the developing country to systematise and control the balance of the outcome to meet national development objectives. The role of the state has become ever more important in this process, as the World Bank in its 1997 report observes that globalisation can be a threat to weak or capriciously governed states, and at the same time it is also capable of fostering development and economic well-being.<sup>39</sup> The ability of developing countries to achieve development on a level playing field of globalisation remains to be seen unless appropriate concessions are granted by developed countries.

I have outlined the concepts of 'the state', 'economic development', the triad of 'free enterprise capitalism', 'the mixed economy' and 'socialism', as well as 'uneven development' and 'dependency'. These concepts help us analyse the transformation of what has come to be referred to as Malaysia in its movement from what I call a 'natural economy' to one characterised as 'state capitalism'. Let me now introduce the Malaysian case.

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<sup>39</sup>World Bank (1997b), *World Development Report 1997*, New York: Oxford University Press, p.11.



**Map 1.1.1: Malaysia**

### **1.1.1 The Malaysian Case**

Certain territories which now comprise Malaysia (the former Malayan Peninsula, the Straits Settlements of Penang (Pulau Pinang) and Malacca (Melaka), and the Northern Borneo states of Sabah and Sarawak (see Map 1.1.1) have been players in the world economy for a considerable period of time. The establishment of the Malacca Empire in the 15<sup>th</sup> century and the importance of Malacca as a trading port, dealing mainly in spices and minerals can probably be seen to mark the beginning of Malaysia's active involvement in global trade.<sup>40</sup> Subsequent developments then strengthened this status with the establishment of other ports, such as Singapore and Penang, within the Straits of Malacca. British colonialism in the Malayan Peninsula advanced its economic connection with the world market through the export of tin and rubber and the import of Western industrial and consumer products. At independence in 1957, tin and rubber represented

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<sup>40</sup>Jomo (1988), p.4.



85% of total export earnings<sup>41</sup> in the Federation of Malaya.<sup>42</sup> The vicissitudes of commodity prices during both the colonial and particularly post-colonial periods had a considerable impact on national income and conveyed a warning to the Malay(sian) government of the need to diversify the economy and become less dependent on tin and rubber. Much has been achieved since then, for much of the almost 50 years since independence, Malaysia has been a moderately successful, middle-income, commodity-producing, and net oil-exporting country. It has done this by addressing the problems engendered in transforming a 'colonial economy' based on natural resource exploitation into a post-colonial, diversified economy. Indeed, during the 1960s the heavy dependence on rubber had begun to decline as diversification into tobacco, cocoa, and oil palm had taken place. In the early 1970s state-supported industrialisation programmes, largely based on foreign direct investment in the import-substituting manufacturing sector, began to expand rapidly. At the same time export-oriented and labour intensive production of textiles, garments and electronic products began to take shape. A change in emphasis occurred in the 1980s when state-sponsored programmes in the automobile, cement, and steel sectors saw the country's participation in heavy industries.

From the era when primary commodity export provided the main revenue to the development of export-oriented industrialisation, one feature that has been persistently present in the country's development is its dependence on the outside world in the form

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<sup>41</sup>Dixon, C. (1991). *Southeast Asia and the World Economy*, Oxford: Basil Blackwell, p.183.

<sup>42</sup> The former British-administered Federated and Unfederated Malay States and the Straits Settlements of Penang and Malacca were brought together at independence as the Federation of Malaya in 1957. Subsequently the British Crown colonies of Sarawak and British North Borneo (Sabah) were incorporated into a wider Federation of Malaysia in 1963. Singapore joined briefly from 1963 to 1965 before becoming an independent Republic.

of capital, technology, and markets.<sup>43</sup> During the colonial period and post-independence 1990s this dependence also includes foreign labour. While these important factors are interrelated with each other in economic production it is the market, representing the end of the production process, that is most crucial, without which the whole process would not have been initiated in the first place. The country's population growth from 8.2 million in 1960, to 13.8 million in 1980, and 23.3 million in 2000<sup>44</sup> only provides a relatively small market for mass consumption and the economic growth of industrial and consumer products. The search for new product destinations in the global markets has now become the main challenge for the country in order to expand its economic development.

On the domestic front, economic development in independent Malaysia has been heavily influenced by the colonial legacies of uneven development, dependence, economic inequality, and social division. Most evident has been the ethnic division that developed during the colonial period. The urban industrial sector and cash crop production was excluded from the Malays until independence, who were concentrated mainly in food production.<sup>45</sup> At the same time sections of the Chinese and Indian migrant population took advantage of the urban sector to advance their economic mobility by way of commerce, education and the professions. The first 12 years of the post-independence period saw these divisions widen.

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<sup>43</sup>For a comprehensive economic history of Malaysia, see Drabble, J. H. (2000). *An Economic History of Malaysia, c1800-1990*, Basingstroke: MacMillan Press Ltd.

<sup>44</sup>Figures for 1960 and 1980 from Ibid., Table 6.1, p.90; for 2000 the figures are from Department of Statistics, Malaysia (2000). *State/District Data Bank*, Kuala Lumpur, p.1.

<sup>45</sup>Alatas, Syed Hussein (1977). *The Myth of the Lazy Native*, London: Frank Cass; Lim Teck Ghee, 'British Colonial Administration and the "Ethnic Division of Labour" in Malaya' in *Kajian Malaysia*, 2, 2, December, 1984.

Economic inequality, which had emerged from the early colonial period, was even more obvious during the post-independence period. In the 1950s foreign interests dominated a wide spectrum of the economy. European-owned companies controlled 60% of imports, 60% to 75% of exports, 60% of tin output, and 84% of large rubber estates covering areas larger than 500 acres each.<sup>46</sup> The Chinese largely controlled the majority of the balance. Independence saw the gradual reduction of the European stranglehold on the economy and witnessed the transfer and dominance of the Chinese in the economy of Malaysia. The combined effects of these social divisions and the economic disparities that caused the Malays to be left far behind eventually reached their height in the late 1960s with the May 13<sup>th</sup>, 1969 race riots. This incident paved the way for the New Economic Policy (NEP) to be adopted that addressed ethnic imbalances and the elimination of ethnic identification with economic function.<sup>47</sup>

The NEP, a 20-year programme until 1990, focussed its attention principally on the Malays since they were the most affected in terms of low economic achievement and poverty. The policy caused aggravation to the other ethnic groups that felt unfairly treated, and it also attracted various critics.<sup>48</sup> The largely Malay-dominated government, however, felt that the policy, based on positive discrimination, would be able to reduce the disparities among the ethnic groups and maintain political stability. The target was set at reducing the incidence of poverty from 49% in 1970 to 16% of all households by

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<sup>46</sup>Puthucheary, J. J. (1960). *Ownership and Control in the Malayan Economy*, Singapore: Eastern University Press, pp.xv, 26-7, 85-86.

<sup>47</sup>Malaysia (1976). *Third Malaysia Plan 1976-1980*. Kuala Lumpur: Government Printers, p.2.

<sup>48</sup>For example, see Mehmet, O. (1980), 'Managed Industrialization and Poverty Redressal Policies in Malaysia', *The South East Asian Economic Review*, Vol. 1, No. 3, pp.219-32; and Chandra Muzaffar (1989). *The NEP: Development and Alternative Consciousness*, Penang: Aliran.

1990. The scale of the income disparity in 1970 can be depicted as follows: the mean monthly household income of Malays, Chinese, and Indians were RM172, RM394, and RM304 respectively; 74% of Malay households were considered poor, followed by 17% Chinese and 8% Indians; and 86% of the total poor households were located in the Malay-dominated rural areas.<sup>49</sup>

On the economic front, the *bumiputera*<sup>50</sup> share of corporate equity was to be raised from 2.5% in 1970 to 30% at the end of the period. Various strategies were utilised to accomplish the target objectives of the NEP which include the following: the use of ethnic quotas for access to state assistance, civil service recruitment, tertiary education and training, as well as business opportunities. In raising the incomes of the poor, particularly in the rural areas, various public organisations, primarily orientated towards land settlement and agricultural development, were established. Such public organisations include, for example, the Federal Land Development Authority (FELDA), the Federal Land Consolidation and Rehabilitation Authority (FELCRA), and the Rubber Industry Smallholders Development Authority (RISDA). On the business side, the government's involvement saw the establishment of a range of agencies and enterprises, at both the federal and state levels, primarily on behalf of the *bumiputera*.<sup>51</sup> Examples of some of the better known agencies are Permodalan Nasional Berhad (PNB), Heavy Industries Corporation of Malaysia (HICOM), Perusahaan Otomobil Nasional

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<sup>49</sup>Extracted from Dixon (1991), p.182 Table 5.8(b).

<sup>50</sup>*Bumiputera* literally means son of the soil or the indigenous community, who are predominantly Malays.

<sup>51</sup>Proliferation of public enterprises in Malaysia were as follows: 22 in 1960, 109 in 1970, 656 in 1980, and 1014 in 1985, see Khoo Boo Teik (2001). 'The State and the Market in Malaysian Political Economy' in Rodan et. al. (eds.). *The Political Economy of South-East Asia*, 2<sup>nd</sup> Edition, Melbourne: Oxford University Press, p.185.

(PROTON), Petroleum Nasional Berhad (PETRONAS), and the state economic development corporations (SEDCs). A decade and a half after the implementation of the NEP the government felt that a reasonable number of Malay entrepreneurs and technocrats with business experience had been produced and they were ready to transfer some of these state assets 'held in trust' on behalf of the *bumiputera* to the private sector under privatisation policies.<sup>52</sup> In 1991 the National Development Plan (NDP) replaced the NEP and gave more emphasis to economic growth rather than restructuring, but at the same time the ethnic dimensions of the former policy continued. At the close of the century the NDP had shown considerable achievement in combating poverty.<sup>53</sup> However, on the equity side Malaysian ownership had declined but the foreign shares witnessed a marked increase, enabling Malaysia to achieve further growth and accelerate the recovery from the 1997 financial crisis affecting Asian countries more speedily.<sup>54</sup>

Malaysian government policies since independence have produced mixed outcomes. The policies to correct economic imbalances were based upon a continuous expansion of the economy with the goal that no one ethnic group lost out. Concerns for the negative consequences of the policy, particularly towards Chinese enterprises, were not as serious as first thought.<sup>55</sup> Economic growth allowed the closing of disparities with the distribution of newly created economic wealth, while the redistribution of existing wealth was kept to the minimum. The combination of redistributive policies and economic

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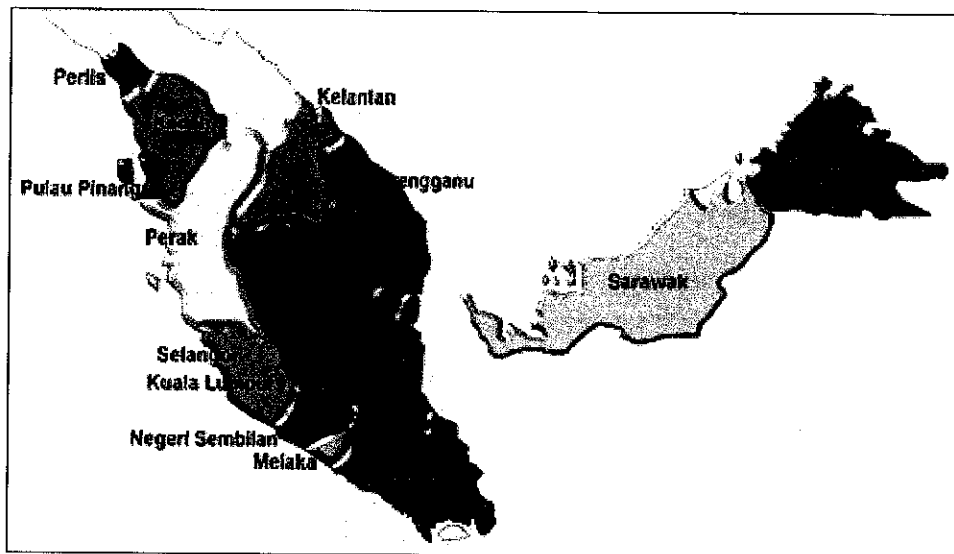
<sup>52</sup>From 1986 to 1988 seventy-one public establishments underwent this programme. [Wong Tok Kin (1989) cited in Dixon (1991), p.189]

<sup>53</sup>In 1999 the incidence of poverty had declined to 7.5%. [Malaysia (2001), p.50]

<sup>54</sup>Both the *bumiputera* and non-*bumiputera* ownership had reduced from 66.1% in 1990 to 59.4 percent in 2000; foreign ownership had increased markedly from 25.4% to 32.7% [Ibid., p.53]

<sup>55</sup>Eyre (1997), p.135; Share of corporate ownership by 'other Malaysian' had increased from 34.3% in 1970 to 46.2% in 1990. [Malaysia (1991a). *The Second Outline Perspective Plan 1991-2000*, Kuala Lumpur: Government Printers, p.49]

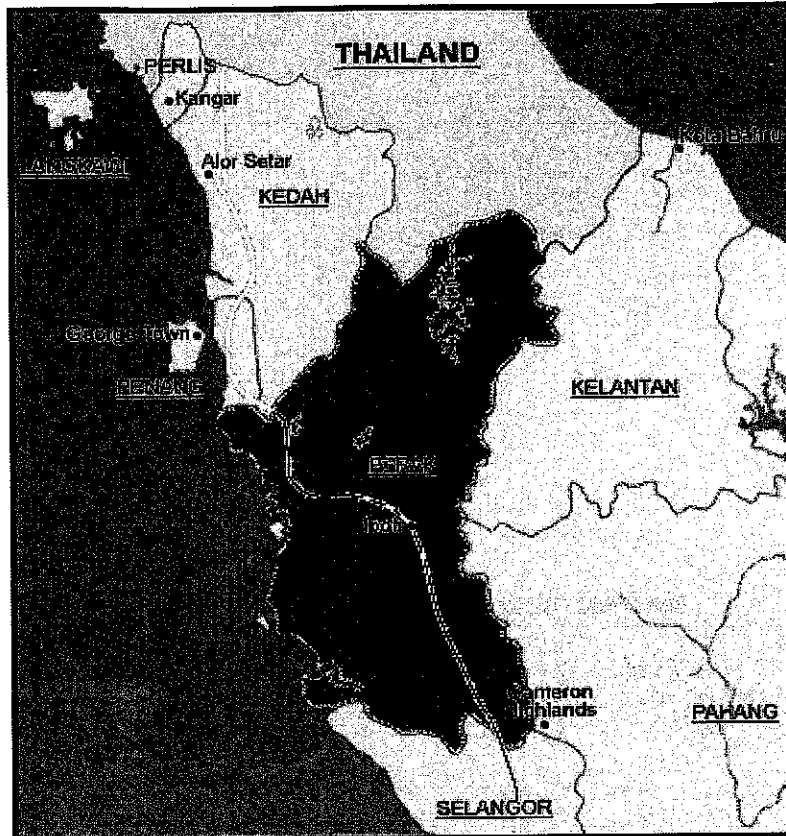
growth created an expansion in the middle class segment among all ethnic groups. While the upper and the middle class fared well in the process, economic imbalances still persist among the urban and the rural poor.



**Map 1.1.2 States in Malaysia**

### **1.1.2 The Perak Case**

While the discussion so far has concentrated on Malaysia as a country, it comprises 13 federated states, one of which is Perak (see Map 1.1.2). Covering an area of 21,006 square kilometres Perak is the second largest state in the Peninsula. It is located along the country's western coast; bordering it in the north are Kedah and Thailand, on the northwest is Penang, on the east are Kelantan and Pahang, on the south is Selangor, and on the west is the Straits of Malacca (see Map 1.3.1).



**Map 1.3.1 The State of Perak**

In many historical writings different explanations are given for the possible origin of ‘Perak’.<sup>56</sup> The two most common versions relate specifically to the word *perak*, which in the Malay language means ‘silver’. It is said that the name either originated from a silvery reflection resulting from the “glimmer of fish in the water” or the silvery colour of

<sup>56</sup>For example, see Maxwell, W. E. (1884). ‘The History of Perak from Native Sources’ in *Journal of the Straits Branch of the Royal Asiatic Society (JSBRAS)*, 14, 1884, pp.305-21; Wilkinson, R. J. (1924). *Papers on Malay Subjects: History Part II*, Kuala Lumpur: Federated Malay States Government Press; Buyong Adil (1981). *Sejarah Perak*, Kuala Lumpur: Dewan Bahasa dan Pustaka; <http://www.perak.gov.my/tourism/index1.html> (31/03/2006); <http://en.wikipedia.org/wiki/Perak> (31/03/2006); <http://www.4dw.net/royalark/Malaysia/perak.htm> (31/03/2006).

tin which could be found in the area at the time. The third and least common version suggests that the name came from Tun Perak, a *Bendahara*<sup>57</sup> of the Malacca Sultanate.

The official political history of Perak begins with the installation of Sultan Muzaffar Shah 1 as the first Sultan in 1528.<sup>58</sup> He was the son of Sultan Mahmud Shah of Malacca. Until today Perak remains the only Malaysian state that boasts a royal house descended directly from the old ruling house of Malacca. The possession of rich tin deposits served to put Perak under constant external threat from other competing powers. The Dutch, Bugis, Achehnese and Siamese had all attempted to invade Perak during the 16<sup>th</sup> to 18<sup>th</sup> centuries with the main objective of monopolising the tin trade. The first formal British presence in the state originated from its intervention in 1826 to prevent Siam (now Thailand) from annexing Perak.<sup>59</sup>

The state became more prominent in Malayan history with the discovery of large tin deposits in Larut and Taiping in the 1840s which brought a large influx of Chinese immigrants resulting in turn in the birth of a multi-ethnic society. The exploitation of tin also created an unstable social, economic and political environment – competition among powerful territorial chiefs, power struggles among the successors of the Perak throne, and clan and secret society rivalry among the Chinese tin-miners for control of the tin

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<sup>57</sup>*Bendahara* is a senior position in ancient Malay government which approximates the position of prime minister in modern times. Tun Perak was the most famous and had served several Sultans in the late 15<sup>th</sup> century.

<sup>58</sup>For brief historical surveys of the Perak Sultanate, see Khoo Kay Kim, 'Succession to the Perak Sultanate' in *Journal of the Malayan Branch of the Royal Asiatic Society (JMBRAS)*, 56(2), 1983, pp.7-29 and Khoo Kay Kim, 'The Perak Sultanate: Ancient and Modern' in *JMBRAS*, 59(1), 1986, pp.1-26.

<sup>59</sup>Khoo Kay Kim (1972). *The Western Malay States 1850-1873*, Kuala Lumpur: Oxford University Press, pp.32-3; Mills, L. A. (1966). *British Malaya 1824-67*, Kuala Lumpur: Oxford University Press, pp.157-163.



deposits. This continuous instability gave the British a window of opportunity to intervene for the second time in 1874. This significant event in Perak history with the signing of the Pangkor Treaty saw the appointment of a British Resident to advise the Sultan, and, in effect, control all administrative and political affairs in Perak, except for those pertaining to Malay customs and religion.

In 1896 Perak became a member-state of the Federated Malay States (FMS) along with Selangor, Negeri Sembilan, and Pahang. Towards the second-half of the nineteenth century the introduction of rubber cultivation helped expand further the commodity exports of Perak. A second wave of immigration took place. However, this time a large influx of Southern Indian immigrants were brought in as estate labourers. Perak's population therefore became increasingly diverse, and its economy more closely integrated into the world market. British colonial rule in Perak was interrupted in 1942 until 1945 when the whole country was under Japanese occupation. After the war British colonial rule resumed and only ended on 31 August, 1957 when the Federation of Malaya (including Perak) was granted independence and then the wider Federation of Malaysia created in September 1963.

Although Malaysia is centrally governed and this provides the direction of national development programmes via policies such as the NEP and NDP, the constituent states are responsible for adhering to these general visions by implementing approaches that are deemed appropriate at the local level.<sup>60</sup> The aggregate rate of success achieved by

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<sup>60</sup>Constitutionally, the central government is responsible for finance, education, health, external affairs, defence, and civil and criminal law. The states control land, agriculture and forestry.

Malaysia since independence has not been shared equally by all the states. Most noticeable is the economic progress attained by the states on Malaysia's west coast as compared to those on the east coast and in East Malaysia. Perak, one of the states on the west coast, has benefited from such success. Similar to the Malaysian case, Perak built its economy and prosperity on primary commodity exports from the colonial period until the 1980s when tin lost its pre-eminence in the world market. Since then the patterns of economic activity in the state began to change considerably. Manufacturing and the service industries have replaced tin mining as the primary economic activity; in the agricultural sector oil palm has replaced rubber; and timber production as an export item has levelled in the 1990s at about a million cubic metres annually.<sup>61</sup> From a total contribution of 46.1% towards Perak's GDP in the 1970s the importance of these primary industries gradually declined to 22.4% in 1996.<sup>62</sup> The manufacturing sector has seen the inflow of foreign direct investment into Perak with the establishment of industrial units in various parts of the state, with early concentrations in Kinta and Taiping districts. The development later expanded to Manjung and Kerian as well as Batang Padang districts, mainly in those areas bordering the state of Selangor. The intensification of this sector also saw a boom in the construction industry in these districts. These secondary activities had almost doubled their GDP contribution from 18.6% to 33.1% during the same period. Tertiary economic activities, including those relating to tourism and its related activities too had seen a marked increase from 35.3% to 44.5%. These historical data clearly demonstrate the shift in development emphasis in Perak from raw-commodity dependence to manufacturing and services.

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<sup>61</sup>Economic Planning Unit (EPU), Perak (1998). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan*, Ipoh, p.47.

<sup>62</sup>*Ibid.*, p.36.

As with other states and countries the economy of Perak is also sensitive to, and has been influenced by, global market conditions. The Asian financial crisis had serious consequences for Malaysia and the region, and so did market liberalisation in such neighbouring countries as China and Vietnam offering better comparative advantage in terms of labour and costs. The last few years have seen some of the multinational companies in Malaysia either relocating their operation to these new markets or rationalising their operations due to decreasing demand, rising production costs or severe global competition. The stage of economic development characterised as labour-rich and capital-scarce, based on low-cost and labour-intensive production, is over. The shift in the development emphasis in Perak, however, has not lessened its dependence on global markets, despite relieving it of the enormous economic pressures imposed by global price fluctuations in a limited number of primary commodities.

This shift in emphasis has also occasioned the need for socio-economic policy adjustments. The initiatives taken by Perak to combat poverty as part of the national and state programmes since independence have achieved considerable results with a substantial reduction in poverty incidence from 43.0% in 1976, to 19.9% in 1987, and to 4.5% in 1997.<sup>63</sup> Distribution of poverty in the 9 districts of Perak was not even. For example in 1987, Kerian, Kinta, and Larut Matang topped the list with 23%, 16.4% and

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<sup>63</sup>Figure for 1976 from EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, Ipoh, p.5; 1987 figure from EPU, Perak (1993). *Bank Data Negeri Perak Darul Ridzuan (Perangkaan Asas)*, Mac, Ipoh, p.111; and 1997 figure from EPU, Perak (1999a). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan 1998*, Ipoh, p.38.

13.4% respectively while at the bottom end were Hilir Perak (7.7%), Manjung (5.4%) and Batang Padang (3.1%).<sup>64</sup>

To move forward in economic development, Perak had to make various adjustments to balance both its economic achievements as well as wealth distribution in its multi-ethnic society, particularly since the inception of the NEP. The shifts in economic activities have also required the labour force to adapt accordingly and this has led to changes in the employment pattern in the state. There has also been some spatial redistribution of economic activities because of the imbalances between the economic sectors and between districts. In the case of Perak its success, if one were to compare the economic situation in 1970 with the situation towards the end of the century, has largely overshadowed its other economic setbacks. However, it is only when compared to some of the other Peninsular Malaysian states such as Selangor, Penang, and Johor that one begins to realise that more could have been done in developing Perak, particularly in attracting foreign investment.

## **1.2 The study**

This study focuses on the transformation of Perak's economy from a pre-capitalist or 'natural' one to a modern post-colonial capitalist system. Perak saw the first formal external intervention of a European power and the subsequent imposition of a British colonial administration which was later extended to cover the whole of Malaya (later Malaysia). The history of pre-colonial, colonial and post-colonial Malay(si)a has

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<sup>64</sup>EPU, Perak (1991a). *Taklimat Pembangunan Negeri Perak Darul Ridzuan*, September, Ipoh, p.24.

witnessed the increasing involvement of the state in economic affairs. Through the production and export of much sought-after commodities, particularly tin and rubber, Perak was increasingly incorporated into the world economy. The pre-capitalist system of production was slowly undermined and replaced by the capitalist system of production. Nonetheless, Perak progressed at a much faster pace than any other territory in the country. Post-colonial national economic progress has seen different economic approaches undertaken in Malaysia, from the market-led approach in the 1950s and 1960s to a mixed market/regulatory policy from the 1970s, and then to a state-centred strategy increasingly from the 1980s, including economic diversification and industrialisation. During the period of independence other Malaysian states have managed to challenge Perak's dominance. Perak's economic position has declined due to several factors including the adoption of policies of industrialisation and modernisation which have favoured other states, particularly Selangor and Penang, the move away from a resource-based economy, and the responses to changes in the world economy. The changes in these patterns of economic activities require examination and explanation in order to understand the relations between state intervention and the economy in Perak in the context of changes in the global economy.

Second, despite the importance of Perak's contribution to Malay(si)a's economic progress very little recent advanced research has been undertaken on this subject. Furthermore, the state, in the sense of the national government, as a pivotal institution influencing the process of development, needs more detailed examination. Migdal points out that the 'danger in taking the state for granted is that we begin to assume states in all

times and places have had a similar potential or ability to achieve their leader's intentions'.<sup>65</sup> These available studies to date either concentrate on Malaysia and consider Perak as a constituent part of the wider nation, or are state-specific but usually in a very narrowly focused discipline, mainly concentrating on the colonial era. Examples of the former can be found in most of the publications on the economic history of Malay(si)a, including those by Andaya, Bastin and Winks, Dun J. Li and Gullick,<sup>66</sup> while examples of the latter are those of Wong Lin Ken, Lim Teck Ghee and Lee Kam Hing among others.<sup>67</sup> As no detailed and recent contemporary research has been carried out on the economic development of Perak, this study attempts to integrate historical studies with recent data in order to present an analysis of economic transformation in Perak from the colonial period to the end of the 20<sup>th</sup> century. It also reflects the desire to broaden the relevance and importance of state involvement in economic development processes, and to use this perspective to understand the economic history of Perak, embracing both the colonial and post-colonial period.

This comprehensive study therefore traces the economic development path undertaken by Perak from the pre-colonial era, through the colonial period to the present. The changing mode of production, where the accumulation of capital increasingly took centre stage, had other structural implications for the society at large. These changes, which were the

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<sup>65</sup>Migdal (1988), p.17.

<sup>66</sup>See Andaya, B. W. & Andaya, L. Y. (1982). *A History of Malaysia*, London: McMillan; Bastin, B. & Winks, R. W. (comp.), (1966). *Malaysia: Selected Historical Readings*, Kuala Lumpur: Oxford University Press; Dun J. Li (1955). *British Malaya*, New York: The American Press; and Gullick, J. M. (1963). *Malaya*, London: Ernest Benn Limited.

<sup>67</sup>See Wong Lin Ken (1965). *The Malayan Tin Industry to 1914*, Tuscon: The University of Arizona Press; Lim Teck Ghee (1976). *Origins of a Colonial Economy: Land and Agriculture in Perak 1874-1897*, Penang: Penerbit Universiti Sains Malaysia; and Lee Kam Hing (1978), 'A Socio-Economic History of Perak 1920-1939', in Lee Poh Ping & Lee Kam Hing (1978). *Some Socio-economic Aspects of Perak Society, Malaysia*, No.6, Joint Research Project, Institute of Developing Economies, Japan.

consequence of Western European capitalist expansion, were made possible by the establishment of a global market and also through different forms of colonial intervention.<sup>68</sup>

Chinese entrepreneurs, who were the early major capital investors in the colonial period in Perak and other Malay States, and who were already engaged in production primarily in the tin mining sector from the mid-19<sup>th</sup> century, saw their dominance overtaken by British entrepreneurs both in the mining and later in the plantation sector. In the post-colonial period British capital investments in Perak began to decline and once again fell progressively in the hands of the Chinese. Wealth redistribution initiatives were then undertaken by the post-colonial Malaysian state from 1970 to achieve an economic balance among the different ethnic groups. At the same time these initiatives encouraged foreign direct investment in Malaysia, including Perak, which saw changes in the structure of capital investment. For example, quotas were imposed for access to state assistance and business opportunities, and incentive schemes such as tax holidays were introduced for the foreign investors. In the 1980s Perak began to participate in the expansion of the Malaysian economy as a profit-seeking capital investor through the establishment of public enterprises. This is in contrast to the earlier notion that state-managed industries were organised not for direct profit but in order to correct ethnic-related economic imbalances.

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<sup>68</sup>Roxborough, I. (1979). *Theories of Underdevelopment*, London and Basingstoke: The Macmillan Press, p.42; Wallerstein, I. (1983). *Historical Capitalism*, London: Verso Editions, p.56.

However, the investment of capital to organise production for the market obviously requires labour to be made available. Throughout the various historical periods under consideration the rise and decline of commodity sectors have forced labour to become more mobile and responsive to change. These transformations, which were driven by the needs and demands of the market, have led to changes in the ethnic distribution of the labour force in Malaysia. The movement of members of a particular ethnic group into the sectors dominated by other groups has increased since the mid-1970s. Most notable is the gradual shift in *bumiputera* participation into the manufacturing and commercial sectors. In 1980, 7.9% of the total *bumiputera* workforce was involved in the manufacturing sector, which was dominated by the Chinese; in the commercial sector it was 5.8%. In 1995 these figures rose significantly to 19.5% and 12.3% respectively.<sup>69</sup> These changing trends of labour force distribution will also be examined.

As a multi-ethnic state, mainly as a consequence of the immigration of Chinese and Indian labourers to meet the shortages in the tin and rubber industries in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, Malaysia has experienced changes in patterns of employment after the decline in these industries. It was also the existence of a multi-ethnic society which forced the state to compromise in the sharing of political power among the different ethnic groups at independence and demanded balanced socio-economic adjustments to maintain political stability.

The long-term economic transformation of Perak will be examined by analysing several inter-related issues; first, the change in the role of the state in its relationship to the

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<sup>69</sup>EPU, Perak (1986a), p.25; EPU, Perak (1998), p.61.



economy; second, the change in the societal structures and trends in selected sectors of the economy as a result of the change in the roles and policies of the state; and lastly, the extent to which and the ways in which the state has re-orientated and re-organised the economy after the demise of tin and the decline in the rubber industry. Most, if not all, of the economic changes that have taken place were both the cause and effect of the different roles played by the state during these different periods and the policies and strategies adopted. The basic framework of this study therefore does not rely strictly on a specific concept of development but rather a combination of concepts focussing on economic growth, development, dependency and uneven development, and the role of the state in the transformation process. In a broad sense, this study provides a detailed social and economic history of Perak concentrating on key factors of economic production i.e. capital, labour and land, in contrast to an abstract ideal-type study which examines general processes of economic transformation. Specific questions to be addressed include the following: How has Perak addressed its colonial legacy in relation to the emphasis on primary commodity exploitation and export? Has Perak made sufficient adjustments in the use of capital, labour and land in facing the challenges of the changing national and global economic environment, given the different levels of state intervention in the Malaysian economy? Has the structure of the post-independence state of Perak succeeded in achieving the objectives laid out at both the local and federal levels and at the same time lessened the disparity of uneven development and economic dependence?

In carrying out the study, two interrelated approaches have been deployed in tracing the economic transformation of Perak. The first approach, in two parts, comprised the

collection of relevant primary and other data from various sources, and secondly, a historical description and analysis of all three periods under consideration. With regard to Perak, the availability of limited pre-colonial statistical data was the most conspicuous difficulty but the presence of adequate non-statistical data helped alleviate the problems. This period is important as it provides a background and a starting point for assessing the nature and direction of subsequent changes. Data for the colonial and post-independence periods were more abundant. However, these were not without limitations. While a reasonable amount of data was available for the colonial period in Perak, the availability of post-independence data was made difficult because of the gradual steps taken by the federal authorities to publish statistical data on a national rather than local basis. In certain instances the breakdown of statistical data by state is unavailable. While some of these data were obtained from library collections and archives in both Malaysia and Britain, others were obtained from reports and publications of various government agencies at both local and federal levels.

Interviews were also carried out with selected individuals who were directly involved in recent economic development activities in Perak. These include current and past state officers and leading personalities both from the private and public sectors. Attempts to interview the *Menteri Besar* (Chief Minister) of Perak however proved futile due to his busy schedule. As the interviewees were from diverse backgrounds and the study focused on broad state development issues, the interviews were carried out as free-flow dialogues rather than rigid question-and-answer sessions. However, to keep within the intended objectives, these interviews were carried out within a broadly predetermined framework.

The limitation of these interviews was that they could only provide complementary information on the post-independence period, particularly from the 1980s onwards, and not earlier.

The organisation of the thesis is divided into nine chapters including both the introduction and the conclusions. The remaining seven chapters cover the three periods under study; Chapter 2 focuses on the pre-colonial period, providing background to the colonial encounter, while three chapters each consider economic development in the colonial and post-independence periods. For obvious reasons the bulk of the material covers the latter two periods with emphasis given to changing patterns and processes in the use of land, labour and capital.

The significant changes that took place during the colonial period are presented in Chapters 3, 4 and 5. Chapter 3 examines the wider economic transformations brought about under British colonialism while Chapters 4 and 5 concentrate respectively on the strategic role of rice and then the exploitation of tin and rubber in the expanding capitalist economy. Chapter 6 discusses the role of the post-independence state in economic development in Perak up to 1980. The impact on Perak's economy as the result of the decline in tin mining and rubber cultivation is presented in Chapter 7. Chapter 8 considers the changing role of the state from 1981 to 2000 in reorganising Perak's economy. Chapter 9 assesses the changing role of the state in economic transformation in pre-colonial, colonial and post-colonial Perak, by focussing on key historical factors and processes. It also suggests possible future lines of enquiry.

## **CHAPTER 2**

### **ECONOMIC PRODUCTION IN PRE-COLONIAL PERAK (BEFORE 1874)**

#### **2.1 Introduction**

This chapter examines socio-political organisation and economic development in pre-colonial Perak.<sup>1</sup> It is also necessary to analyse those factors and events that influenced the development of the economy and to focus on social and political structures, peasants and the 'natural' economy, trade, rice and tin, and also the role of the state in economic production. The political economy of pre-colonial Perak needs to be understood before considering the transformations that took place beyond this period.

A few preliminary remarks, however, need to be made. First, within a span of three-and-a-half centuries, since the official establishment of the state in 1528 to British intervention in 1874, the economy of Perak underwent various developmental stages. Major growth was only visible towards the end of the 18<sup>th</sup> century and more so in the 19<sup>th</sup> century. Second, the slow growth was attributed to the nature of the traditional economy and the social and political structures of that era. Third, the availability of tin and its production was the main reason for the accelerated growth in the later part of the pre-colonial period. Fourth, the pre-colonial economy itself, particularly during much of the early part of the period, did not encourage the need for surplus production among the masses, as there was no need to do so. Despite the prevalent economic structure pre-

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<sup>1</sup>Pre-colonial Perak in this study refers to the period from 1528 to 1874 i.e. from the year the state was founded through to the year of the Pangkor Treaty, the start of British colonialism in Perak.

colonial Perak was still linked to the outside world. The dealings were mainly with the West, particularly through tin exports. It was, however, not a dynamic link.

This analysis will be brief, as the intention is to set the stage for further discussion on transformations during the colonial and post-colonial periods. Within the limitations of this study, it is not feasible to scrutinise every aspect of Perak's pre-colonial political economy and only certain elements relevant to the general argument of the thesis will be presented, mainly with reference to the changes brought about as the result of foreign intervention in the economy and the introduction of outside labour and technology. It is also not intended to reinterpret history but to provide an introductory discussion based on the available literature.

## **2.2 Social and political structures**

The social and political structures of pre-colonial Perak had been much influenced by the traditions and practices of both Malacca and Aceh. The former was due to the fact that the first ruler of Perak in 1528, Sultan Muzaffar Syah, was the eldest son of Sultan Mahmud Syah, the last ruler of Malacca. Aceh, on the other hand, controlled Perak in the late sixteenth century.<sup>2</sup> At its apex was the hereditary ruler, the Sultan, who

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<sup>2</sup>Various articles have been written on the genealogy of the Perak royal line based on the historical manuscripts '*Silsilah Raja-Raja Perak I*'. Among others, see Maxwell, W. E., 'Notes on Two Perak Manuscripts' in *JSBRAS*, 2, 1871, pp.181-191; Maxwell, W. E., 'The History of Perak from Native Sources' in *JSBRAS*, 14, 1884, pp.305-21; Winstedt, R. O., 'The Early Rulers of Perak, Pahang, and Aceh' in *JMBRAS*, 10(1), 1932, pp.32-44; and Ceridwen, A., 'The *Silsilah Raja-Raja Perak I*: An Historical and Literary Investigation into the Political Significance of a Malay Court Genealogy' in *JMBRAS*, 74(2), No. 281, 2001, pp.23-34.

symbolised the unity of the state and had the duty to preserve it.<sup>3</sup> His supreme power on all matters was legitimised by custom and religion. The Sultan made all the major appointments and he alone had the powers of life and death within the state. The person of a Sultan was sacred and his sacredness was expressed and embodied in his regalia. He was entitled to the greatest respect and all his public appearances were surrounded by ritual and ceremony.

The tradition of hierarchical positions in the Perak Sultanate,<sup>4</sup> which is believed to be influenced by Hindu prerogatives, was based on the symbolic importance of divisions into four. As such, the main office bearers of the state were organised in multiples of four. Beneath the Sultan was the Raja Muda being first in line to the throne.<sup>5</sup> Then came the first four chiefs (*orang besar-besar*) of the first rank, eight of the second, sixteen of the third, and thirty-two of the fourth. Although the number of chiefly offices seemed large, in reality, power was located in the first two ranks, and among all the ranks a definite social gradation existed. There was variation in functions, which include being attached to the *istana* (palace) that required them to perform ceremonial duties and act as advisers to the Sultan, or being appointed as territorial (*jajahan*) chiefs responsible for

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<sup>3</sup>For a detailed discussion, see Gullick, J. M. (1958). *Indigenous Political Systems of Western Malaya*, London: Athlone Press, University of London.

<sup>4</sup>See Winstedt, R. O. (1961). *The Malays – A Cultural History*, London: Routledge & Keegan Paul Ltd., Chapter 4; Gullick (1958), pp.89-91; Dartford, G. P. (1958). *A Short History of Malaya*, London: Longman, p.78; Wilkinson, R. J. (1924). *Papers on Malay Subjects: History Part II*, Kuala Lumpur: FMS Government Press, p. 66; also Abd Halil Abd Mutalib, 'Aspek-Aspek Sosial dan Ekonomi Masyarakat Negeri Perak Pada Pertengahan Abad ke-19' in *Jurnal Sejarah*, Kuala Lumpur: University of Malaya, Vol. 10, 1971/72, pp.64-68.

<sup>5</sup>Since the 1820s the succession to the Perak Sultanate has been based on rotation among members of three royal families, all whom were children of Sultan Ahmaddin, see Khoo Kay Kim, 'Succession to the Perak Sultanate' in *JMBRAS*, 56(2), 1983, p.11; Khoo Kay Kim, 'The Perak Sultanate: ancient and modern' in *JMBRAS*, 59(1), 1986, p.11; Khoo Kay Kim (1972). *The Western Malay States 1850-1873*, Kuala Lumpur: Oxford University Press, p.30.

local level administration.<sup>6</sup> Those below the second rank were minor chiefs whose titles and functions were less clearly defined. Among the first four chiefs of the first rank, the most senior was the Raja Bendahara who stood second in line to the throne. The Raja Bendahara was the only chiefly office held by the royal family; this position was established during the second half of the 18<sup>th</sup> century and was introduced by Sultan Iskandar. Prior to this shift of power, individuals from an aristocratic family held the position of Bendahara.

In the Malay States including Perak, the functions of the Sultan did not carry many administrative responsibilities.<sup>7</sup> This was probably due to the geography of the state and the difficulties in communication, especially in the inaccessible and remote hinterland regions. Apart from external or foreign-related matters and defence, which were in the hands of the Sultan, the state administration was largely in the hands of the appointed chiefs (*orang besar-besar*) who were themselves district chiefs controlling different parts of the Perak River and its tributaries.

The delegation of authority to the district chiefs was given in the form of *kuasa*, which allowed the recipient special powers and privileges to act on behalf of the Sultan. With the authority given, the district chief became a master in his own district (*jajahan*). Most significant was the authority to collect taxes on products entering and leaving his domain. The revenue came from tolls charged on trade goods passing along the river in both directions, taxes on crops, and also from fines collected from sentences passed in cases

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<sup>6</sup>Khoo Kay Kim (1972), p.15.

<sup>7</sup>Gullick (1958), p.54; Kennedy, J. (1967). *A History of Malaya AD1400-1959*, New York: St. Martin's Press, p.125.

tried. The revenue earned by the district was regarded as the personal income of the chief. In return for the appointment, the chief was required or upon demand by the Sultan to send a lump sum gift or a share of the district revenues. In Perak, it was made known that the Sultan was entitled to \$6 per *bahara*<sup>8</sup> on all tin exported from any district. The Sultan, on the other hand, also received revenues in the same manner as a chief from his own district. Theoretically this system gave the Sultan greater command over and access to revenues than any of the district chiefs.

Wealth was seen as the basis of power which in turn became a means to attract supporters. More supporters meant that more income could be generated for the chief, especially in terms of taxes.<sup>9</sup> The chief on the other hand had large expenses in running his household. Of utmost importance were the expenses needed for the upkeep of his private army of retainers for the maintenance of law and order within the district.

Perak Malay society, as in other Malay States, was stratified into two broad socio-economic categories, comprising nobles or the ruling class and the subjects or *rakyat* (commoners), though there were status gradations within these. The distinction between these two categories was clearly marked: intermarriage was discouraged and only in exceptional cases could a subject rise to a noble position. The nobles themselves were further divided according to hierarchy from the Sultan downwards. At every level the nobles had particular privileges and exemptions. In most cases the organisation and

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<sup>8</sup>Gullick (1958), p. 97 in the despatch from the Governor of SS to Secretary of State for the Colonies dated 26 April 1875. The currency used was the Straits dollar.

1 *bahara* = 400 lb.

<sup>9</sup>Abd Halil Abd Mutalib (1971/72), p.65.



precedence of nobility were based on the principle of birth and family descent. Those who were ranked highly were related to the Sultan and they could claim their right to various chieftainships. At the lower end of this class were those who had been absorbed into the noble class and not born into it. These were generally the wealthy traders and superior warriors of Acehnese, Javanese, Arab and Bugis descent.

At the other end of the social stratification category was the *rakyat*, which formed the base of the political and social structure of the state. It comprised ordinary *kampung* (village) people, whose economy was primarily dependent on subsistence agriculture, cultivating rice, fruits and vegetables. Fishing and hunting activities were also carried out to further supplement the diet. However, daily activities were also subject to village authority especially to that of the *penghulu* (village headman) and the needs of the district chief. Perak as one of the larger Malay States had *kampung* scattered widely throughout the state, and in most cases the *rakyat* might not even have had the chance to see the Sultan.

In the pre-colonial period two institutions greatly affected the life of the *rakyat*; these were *kerah* (corvée labour) and slavery.<sup>10</sup> These two institutions were the vehicles used by the district chiefs to ensure that, apart from those who were volunteers, they would have sufficient human resources to carry out works either for the community as a whole or for their own personal benefit. The tradition of *kerah* was a system whereby the chief

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<sup>10</sup>For detailed discussion, see Aminuddin bin Baki, 'The Institution of Debt-Slavery in Perak' in *Journal of the Malaysian Historical Society*, Vol. 26, 1983, p.22-29; Winstedt (1961), p.52-56; Gullick (1958), p.98-105.

could call for compulsory labour from those *rakyat* in his district.<sup>11</sup> This forced labour might include a contribution to working in the fields, collecting forest products, building and manning stockades, cleaning the river or even for the construction of the village mosque.<sup>12</sup> These labourers, mobilised by the *penghulu*, might be called upon for duties at any time and for any length of time. While performing the *kerah*, workers would not be paid wages except that, under normal circumstances, food was provided. The *kerah* system, which also ensured the maintenance of the ruling class, was often onerous and demanding as there were times when the call and duration for duty interfered with the individual work routines of the *rakyat*.

The other institution was that of slavery.<sup>13</sup> Although slavery existed during the pre-colonial period the practice was not widespread to warrant it being designated as a third category of status within the social stratification system.<sup>14</sup> Slaves were divided into two categories: debtor-bondsmen and ordinary slaves.<sup>15</sup> The status of debtor-bondsmen was higher in that they were ranked as freemen and acknowledged as members of the society of their masters. Despite having to do the same duties as the debt-bondsmen, the ordinary

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<sup>11</sup>A detailed description of this system can be found in Maxwell, W. E., 'The Law and Customs of the Malays with reference to the Tenure of Land' in *JSBRAS*, 13, 1884a, pp.108-111.

<sup>12</sup>Swettenham, F. A. (1929). *British Malaya*, London: Allen & Unwin, pp.142-3.

<sup>13</sup>Extensive documents pertaining to slavery and its abolition in Perak can be found in Straits Settlements (1882a). *Correspondence Respecting Slavery in the Protected Malay States*, London: Her Majesty's Stationery Office, July; Straits Settlements (1882b). *Further Correspondence Respecting Slavery in the Protected Malay States*, London: Her Majesty's Stationery Office, November; and Straits Settlements (1884). *Correspondence Respecting the Protected Malay States, Including Papers Relating to Abolition of Slavery in Perak*, London: Eyre and Spottiswoode, August.

<sup>14</sup>In 1879 there were 1,670 slaves and 1,380 debt-bondsmen in the state, giving a total of 3,050. This represents about 6% of the total Malay population, see Straits Settlements (1882a), Enclosure 1 in No. 8, p.19.

<sup>15</sup>For a detailed description of these two categories, see 'Minute on Slavery Among the Malays in the State of Perak' in Straits Settlements (1882b), Enclosure 2 in No. 4, pp.16-21; see also Philip Loh, 'The British Approach to Slavery in the Straits Settlements and the Malay States 1819 to 1910' in *Journal of the Historical Society*, Kuala Lumpur: University of Malaya, Vol. III, 1964/65, p.5.

slaves had no prospect of status redemption; only by an act of grace from their master could they be redeemed. As Islam does not allow enslavement of a Muslim by another Muslim, the ordinary slaves were therefore those of non-Muslim descent and were Africans, Bataks and aborigines.<sup>16</sup> They were either war captives, 'infidels' who were captured by force, and in the case of Africans, they were purchased at Mecca by Malays who went there for pilgrimage, or others who were found guilty of grave crimes.<sup>17</sup> The debt-bondsmen in theory were supposed to be able to redeem themselves by paying off their debt. In practice, however, very rarely did this happen due to either inability to repay the debt or to the fact that the debt-bondsmen themselves preferred to stay, as their basic living needs were provided by their masters.

The main reason for debt-bondage was the need of a member of the *rakyat* for money who consequently approached the chief for a loan. A grace period was normally given for failure to make scheduled repayments. Repeated failures to repay compelled the borrower to become the chief's debt-bondsmen.<sup>18</sup> Once declared as a debt-bondsman the debtor had to carry out all orders given to him until the debt was repaid. If the borrower was married, his whole family also acquired the status of debt-bondspeople and were taken into the chief's household. All work carried out by them either in the house, field or in any other place as instructed was never set against the sum owed. Any money given to the debt-bondsmen during his stay at the chief's house was added to the debt. It was, therefore, quite impossible for a debt-bondsmen to repay his loan in this circumstance.

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<sup>16</sup>Ibid., p.19. It is envisaged that the Africans and Bataks were few as compared to the aborigines.

<sup>17</sup>Aminuddin (1983), p.22.

<sup>18</sup>Straits Settlements, (1882a), Enclosure 7 in No. 2, p.10; Maxwell, W. E., 'Laws relating to slavery among Malays, with extracts from Perak Code and Malayan Laws of Johore' in *JSBRAS*, No.22, 1890, p.254.

At the other extreme were those single individuals who deliberately wanted to become debt-bondsmen. These individuals were looking for reasonably good treatment from their masters, a place to live, protection, and also possible access to women in marriage.

The existence of *kerah* and slavery, however, provided an ideal means for the chief to secure the supply of labour to be used in any way he deemed appropriate. In an era when there were only two distinct levels in the social stratification system, having a large number of followers only increased the chief's prestige and status.<sup>19</sup> Therefore, it was important that appropriate treatment be given to the *rakyat* including those involved under the *kerah* or to those tied to slavery. Although in the extreme, excessive oppression, cruelty, or injustice did take place, this only worked against the chief's own interest.

Such then, in brief, were the social and political conditions in pre-colonial Perak. The Sultan enjoyed the highest position and dignity, but did not possess total power over his subjects and territory; with the vast size of the state, power was spread between the district chiefs. It was in the district chiefs' interests to see that their population increased or at the very least was maintained as they provided the source of income and the basis of local power. The *kerah* and slavery, particularly debt-bondage, by and large placed the *rakyat* in a dependent condition and, despite the fact that the practice of debt-bondage was not appropriate to the teachings of Islam, no corrective measures were taken because those in authority were the very same people who benefited most from the system.

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<sup>19</sup>Straits Settlements (1882b), Enclosure 2 in No. 4, p.17.

### 2.3 Peasants and the 'natural economy'

The size of the population of the state during the 'pre-colonial' period is difficult to establish because it is based on sporadic information available to Strait Settlements officials,<sup>20</sup> as well as from the notes and writings of occasional travellers. One of the early records by Tomè Pires, a Portuguese who lived in Malacca, described Perak in the early 16<sup>th</sup> century as being a small main settlement with a Malay population estimated to be about 200 people.<sup>21</sup> Being a vassal territory of Malacca then, Perak paid yearly tribute in the form of tin. A hundred years later the population had grown to about 5,000 people;<sup>22</sup> in 1835/36 the population was estimated to be 35,000 people;<sup>23</sup> and in 1870, prior to the British intervention in 1874, it was said to be roughly 70,000, including about 40,000 Chinese in Larut.<sup>24</sup> The local Malay population of the state was mainly concentrated along the Perak River and its tributaries as it provided them with the main means of communication 'especially as they [the Malays] were by nature essentially a sea-going and boating people'.<sup>25</sup> Apart from the local Malays the rest were immigrants from Sumatra, the majority of whom were Minangkabaus.<sup>26</sup> There were also Bugis from the Celebes (Sulawesi). Towards the end of the 18<sup>th</sup> century, the Chinese began to

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<sup>20</sup>Sadka, E. (1968). *The Protected Malay States 1874-1895*, Kuala Lumpur: University of Malaya Press, p.3.

<sup>21</sup>Cortese, A. (1944). *The Suma Oriental of Tomè Pires*, London: Hakluyt Society, Vol II, p.261; Andaya & Andaya (1982), p.60.

<sup>22</sup>Andaya & Andaya (1982), p.60.

<sup>23</sup>Ooi Jin-Bee (1963). *Land, People and Economy in Malaya*, London: Longmans, p.106.

<sup>24</sup>Gullick, J. M. (1987). *Malay Society in the late 19<sup>th</sup> Century: The Beginning of Change*, Singapore: Oxford University Press, p.367.

<sup>25</sup>McNair, J. F. (1972). *Perak and the Malays: Sarong and Keris*, Kuala Lumpur: Oxford University Press, p.16.

<sup>26</sup>Kennedy (1967), p.124; Bastin & Winks (1966), p.91.

Minangkabau was a kingdom in the Padang Highlands of Sumatra noted for its matrilineal social system.

establish a presence in Perak, mainly for tin prospecting.<sup>27</sup> This population eventually became very much larger from the 1820s due to the development of tin mining.

The Malay peasant economic structure during the pre-colonial period was largely subsistence-oriented or a 'natural' economy.<sup>28</sup> Ecosystems were of two broad types: hunting and collecting, and crop cultivation and animal husbandry.<sup>29</sup> In both forms the primary objective of production was to meet the needs and requirements of one's family. The first type also comprised units, which were both directed towards production and consumption. In the second type of ecosystem the peasants' principal activity comprised rice growing - either wet rice, cultivated in flooded fields or dry rice under shifting cultivation.<sup>30</sup> Apart from rice growing, the peasants fished the rivers, reared livestock such as buffalos, chickens and goats, cultivated fruits and vegetables, and collected forest products. Although rice cultivation was the principal occupation of the peasantry there were also those who were involved intermittently in tin mining activities. For centuries Peninsular Malaya (including Perak) had produced tin and gold. Tin mining was important since it helped the state to pay for imported goods and supported the political system. Nonetheless, despite the importance of mining, it was marginal to the main

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<sup>27</sup>Wong Lin Ken (1965). *The Malayan Tin Industry to 1914*, Tucson: The University of Arizona Press, pp.17-8.

<sup>28</sup>The contention here is that 'natural' economy refers to an economic system where money was not used in the transfer of resources. Jomo, however, argued that the assertion of 'natural' economy in Malaya could only be accepted if accompanied with a time frame i.e. prior to the establishment of the Malacca Sultanate, see Jomo (1988), p.29, en54.

<sup>29</sup>Syed Husin Ali (1981). *The Malays: Their Problems and Future*, Kuala Lumpur: Heinemann Asia, p.76; Abd Halil (1971/72), p.66.

<sup>30</sup>Discussion of rice agriculture will be dealt with in Section 2.5.

subsistence agricultural activity, which took precedence, and which did not provide a sufficient labour force for increased and sustained production of tin.<sup>31</sup>

The Malay communities during the pre-colonial period were not completely self-sufficient.<sup>32</sup> They needed specialised non-food products such as weapons, cloth, woven mats, nets and traps for fishing. In a visit to Perak in 1826, James Low wrote that 'the goods most in request are blue cloth of cotton, Acheen [Achehnese] dresses, opium, tobacco, salt, salt-fish, gambier and minor articles'.<sup>33</sup> These products were imported and it was in fulfilling these needs that the Malays became involved in a limited way in the exchange economy in which they had to produce surplus commodities. The involvement gradually increased towards the colonial period.

Labour was provided by the production unit comprising either a nuclear family or, if the need arose, an extended family. For most of the early pre-colonial period production was devoted to meeting immediate needs; there was no effort to produce surplus since the environment did not demand exchange and there was also an absence of exchange channels. This gradually changed, particularly during the early 19<sup>th</sup> century when tin mining, agricultural production, and trade were more developed and the need for surplus production became persistent beyond the peasants' immediate subsistence. Surplus production also attracted the same amount of exaction by the chief or ruler to the amount

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<sup>31</sup>Lim Teck Ghee (1977). *Peasants and their Agricultural Economy in Colonial Malaya 1874-1941*, Kuala Lumpur: Oxford University Press, p.4.

<sup>32</sup>Gullick (1958), p.20; Drabble (2000), p.12.

<sup>33</sup>Cited in Gullick (1987), p.124.

of a tenth in agricultural produce<sup>34</sup> and \$6 per *bahara* for tin exported.<sup>35</sup> The balance of these surpluses was bartered or traded. The exchange that occurred was on a small scale, not centralised and was generally between neighbouring villages.

Perak was one of the larger Malay States but had low population prior to British intervention. The low density and scattered population coupled with the importance of nuclear family labour accounted for the low level of productivity. Indigenous people during most of the early part of the pre-colonial period evaluated wage labour for others as of low social status and equivalent to servitude.<sup>36</sup> The numerous incidences of civil war and the demands made by the chiefs for labour and goods further discouraged the peasants from farming on a larger scale.<sup>37</sup> The existence of the *kerah* system and the shifting cultivation practised by a section of the population were appropriate forms of production at that time.

In the pre-colonial period the Sultan held sovereignty of the land.<sup>38</sup> However, in 19<sup>th</sup> century Perak, the state became increasingly decentralised; it was divided and ruled by powerful territorial chiefs. Although the knowledge of past indigenous customs on the land system is very limited since the Malays generally did not document their customary laws<sup>39</sup>, peasants usually held only occupation and rights of use to land.<sup>40</sup> These rights

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<sup>34</sup>Lim Teck Ghee (1976), p.6.

<sup>35</sup>See fn.8.

<sup>36</sup>Drabble (2000), p.14.

<sup>37</sup>Kennedy (1967), p.127.

<sup>38</sup>For the practices of the Malays towards land dealings during the pre-colonial period, see Maxwell, W. E., 'The Law and Customs of the Malays with reference to the Tenure of Land' in *JSBRAS*, 13, 1884a, pp.75-220.

<sup>39</sup>Wilkinson, R. J. (1908). 'Malay Law' in *Papers on Malay Subjects: Law, Part 1*, Kuala Lumpur: FMS Government Printers, p.1.



gave them reasonable security of tenure but the ruler, or in certain cases the territorial chief, could revoke these rights if he so wished. The abundance of land and the small population provided ample opportunity for any peasant to undertake farming as long as they were Muslims; securing more land was just a matter of one's ability to clear and work the land.<sup>41</sup> However, limited by the supply of family labour and the fact that it was not essential to do so, the peasants did not wish to secure surplus land. The approach adopted towards agricultural production also meant that the economic activities of the peasants would always be individualised with activities carried out either on an individual basis or by the family for its own livelihood.<sup>42</sup> The practice of shifting cultivation during the pre-colonial period was much encouraged by the fact that the peasants did not own the land but merely had rights to use or cultivate it.

Closely interrelated with the political structure and the economic environment of Perak during the pre-colonial period was the absence of capital accumulation among the peasantry and the ruling class. What existed was wealth accumulation among the ruling class where usury, which was highly lucrative and operated in conjunction with the institution of debt-bondage, was seen as an important means to secure and maintain status and position.<sup>43</sup> Although usury was a source of income for the ruling class, it is doubtful if it was that important, as the institution of debt-bondage was not seen as that widespread

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<sup>40</sup>Roff, W. R. (1967). *The Origins of Malay Nationalism*, Kuala Lumpur: University of Malaya, p.10; Wong, David S. Y. (1975). *Tenure and Land Dealings in the Malay States*, Singapore: Singapore University Press, p.13.

<sup>41</sup>Swift, M. (1963). 'Malay Peasants' in *The Role of Savings and Wealth in Southern Asia and the West*, Unesco, p.230.

<sup>42</sup>Wong (1975), p.10.

<sup>43</sup>Jomo (1988), p.18.

in the state.<sup>44</sup> The primary source of wealth for the ruling class came from taxation of and control over trade. For the peasantry, wealth accumulation from production was discouraged because of risk of expropriation by the ruling class, and the existence of the *kerah* system, which disrupted the peasants' daily agricultural operations. This discouragement eventually led the peasants to produce surpluses only for trade for other consumption items. There were no incentives for savings or wealth accumulation and thus the peasants lived in constant insecurity and deprivation. It was the deprived living conditions more often than not which led peasants into debt-bondage.

Pre-colonial Perak was, in a broad sense, characterised by a 'natural' economy with no capitalist relations of production. Although the abundance of land and ready access to it by cultivators, which in turn was determined by one's ability to cultivate, seemed very encouraging for production, there was never a need to produce much beyond one's immediate needs. The need for a larger population to increase productivity and surpluses, therefore, did not arise. What took place in pre-colonial Perak was the outcome of the interplay between the environment, political conditions, and the land tenure system of the time.

## 2.4 Trade

Trading activities are known to have existed in Perak even before the state was founded.<sup>45</sup> Therefore, trading activities were already present since the beginning of the

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<sup>44</sup>See fn.14.

<sup>45</sup>Several kingdoms were said to have existed, and disappeared, in areas where Perak is today, the most well known being the *Gangga Negara*. It is said that during those times brisk trading activities took place in

history of Perak. A continuation of this trend is evident in that in the early 16<sup>th</sup> century Tomè Pires mentioned Bruas, a settlement in Perak, as an important trading location.<sup>46</sup> It has also been mentioned that Perak was one of the earliest entrēpots in the Malay States in the 17<sup>th</sup> century.<sup>47</sup> The efforts to control trade commodities also saw numerous eastern and Western foreign powers trying to colonise the state throughout the pre-colonial period.<sup>48</sup> Perak's main exports then were tin and elephants. Others included rattan, wax, betel nut, *arak* (fermented drink), locally made gunpowder, and iron.<sup>49</sup> Occasionally some rice was produced for export but in most cases this was imported to meet the local population's needs. Tin, however, continued to be in great demand by foreign powers and even more so from the early 18<sup>th</sup> century. In return for exports, Perak imported goods that were not produced locally for consumption; most popular were cloth, salt, tobacco, gambier, chinaware, tools such as *parang*, *keris*, gold thread, and spices.<sup>50</sup>

In the pre-colonial era, trade and commerce were largely in the hands of foreigners, mainly Europeans, Arabs, Chinese and Indians. For the Chinese and Indian merchants it was the establishment of free trade in Penang that had attracted them to the Malay States<sup>51</sup> while the Arabs took the opportunity and used their socio-religious status to gain

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these kingdoms, for examples, see deSilva, G. W. (1939). *Popular History of Malaya and the Netherlands Indies*, Kuala Lumpur: Kyle, Palmer & Co, p.95; Sheppard, M. C. (1959). *Historic Malaya*, Singapore: Eastern University Press Ltd., p.3; Winstedt (1961), p.121; Kathirithamby-Wells, J., (ed.) (1990). *The Southeast Asian Port and Polity*, Singapore: Singapore University Press, p.30.

<sup>46</sup>Cortesão (1944), Vol. II, p.261.

<sup>47</sup>Andaya, B. W. (1979). *Perak, The Abode of Grace*, Kuala Lumpur: Oxford University Press, p.60.

<sup>48</sup>Historically Perak was almost continuously under attack by foreign power such as the Achehnese, Bugis, and Siamese.

<sup>49</sup>Andaya (1979), p.25.

<sup>50</sup>Ibid, p.26.

<sup>51</sup>Ibid, p.107.

concessions and facilities to trade.<sup>52</sup> Among the local inhabitants of Perak involved in trading activities were primarily the members of the ruling class and to a minor extent, the peasants.

The ruling class' involvement in trade was important as it provided them with a substantial proportion of their income from taxation. There were also cases where members of the ruling class themselves were involved directly in trade. Winstedt mentions that 'big transactions were kept in the hands of the rulers...',<sup>53</sup> although Jomo has claimed that the involvement of rulers in commerce was not common since their 'commercial involvement often meant little more than lending a person's name, and therefore the prestige and privileges derived from that person's position, to a commercial enterprise actually run by others'.<sup>54</sup> Nevertheless, what was certain was the ruling class's monopoly of trading rights, which facilitated the acquisition of material resources as personal income. Ruling class involvement in trade was more often concerned with the exploitation of monopolistic advantage for material return rather than with taking part in the market as traders. How the wealth was obtained was a relatively unimportant matter: be it by force, "legitimate trade", monopoly or even gambling or magic.<sup>55</sup> Wealth accumulated from these rights over trade was also often used by the ruling class to add greater opulence to their way of life in keeping with their rank and position, and for 'financing' war.<sup>56</sup>

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<sup>52</sup>Jomo (1988), p.17.

<sup>53</sup>Ibid, p.131.

<sup>54</sup>Ibid, p.16.

<sup>55</sup>Milner, A. C. (1982). *Kerajaan: Malay Political Culture on the Eve of Colonial Rule*, Tucson: University of Arizona Press, p.20.

<sup>56</sup>Syed Hussin Ali (1981), p.77.

Peasant involvement in trade during the greater part of the pre-colonial period was marginal. Tomé Pires indicated how the 'ordinary' Malays came in small *perahu* (boats) to trade items such as tin, rice, chickens, sugar cane and areca nuts.<sup>57</sup> In the inland the peasants were involved in the trading of forest products whose market value depended on their rarity and the secrecy that surrounded their collection.<sup>58</sup> With this demand for forest products an internal trading network linking the interior and the coast was therefore formed. In addition, the presence of certain metals (base and precious) provided opportunities for the relatively isolated region to develop trade potential. The early 19<sup>th</sup> century then witnessed the inflow of Chinese mining communities into Perak; this further enhanced the opportunity for peasant involvement in trade, particularly in food-related products.

Even though both the ruling class and the peasants were involved in trade during the pre-colonial period, further expansion, however, did not occur. As such the overall increase in trade did not lead to the emergence of substantial Malay involvement. Towards the end of the pre-colonial period the introduction of a monetary mechanism<sup>59</sup> could have further facilitated trading activities. The ruling class saw the accumulation of wealth and control over desirable trade goods not as an end in itself but as a means to increase prestige and power.<sup>60</sup> Among the ruling class the potential to challenge their power and influence

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<sup>57</sup>Cortese (1944), vol II, p.261.

<sup>58</sup>Andaya & Andaya (1982), p.11; Perak was also known to have various species of palms that had commercial value, see Bird, I. (1967). *The Golden Chersonese and the Way Thither*, Kuala Lumpur: Oxford University Press, pp.262-4.

<sup>59</sup>Although not recognised as the official currency of Perak, the dollar was already in use in the Malay States since its formal introduction in the Straits Settlements in 1867. For the development of the currency system in Malaysia, see Chiang Hai Ding, 'The Origin of the Malaysian Currency System (1867-1906)' in *JMBRAS*, 39 (1), 1966, pp.1-18.

<sup>60</sup>Drabble (2000), p.21.

encouraged them to accumulate as much wealth as possible, therefore preventing substantial concentration of wealth in the hands of others, including the peasants.<sup>61</sup> As for the peasantry, further expansion of trade and commerce was discouraged by tax exactions imposed by the ruling class. On the other hand, Winstedt indicated that the presence of the Dutch, Portuguese, and later British monopolists was the reason that hampered Malay enterprises and damaged Malay trade.<sup>62</sup> Within the state, the persistence of intra-state low-level warfare had also contributed to the failure of trade expansion among the indigenous population. In addition, the limited trade expansion among the Malays in pre-colonial Perak was due to the lack of political and economic autonomy among those outside the ruling elite. These circumstances faced by the indigenous population failed to provide fertile soil for trade to prosper.

## 2.5 Rice and tin

Two of the main activities that played important roles in the economic lives of the populace as well as in the development of pre-colonial Perak were rice cultivation and tin mining. The Malays of Perak, like those from other Malay States, were strongly attached to agriculture and many of the social, cultural, and religious preoccupations of pre-colonial Malays were derived from and revolved around rice cultivation.<sup>63</sup> Although Malay traditions indicated that the Siamese first introduced rice cultivation to the northern Malay States in the fifteenth century<sup>64</sup>, there have been considerable doubts

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<sup>61</sup>Milner (1982), p.21; Drabble (2000), p.21.

<sup>62</sup>Winstedt (1961), p.105.

<sup>63</sup>Lim Teck Ghee (1976), p.43.

<sup>64</sup>Cooke, E. M. (1961). *Rice Cultivation in Malaya*, Singapore: Eastern Universities Press Ltd, p.ix; Cheng Siok Hwa, 'The Rice Industry of Malaya: A Historical Survey' in *JMBRAS*, 42(2), 1969, p.130.

raised about this claim based on the evidence that rice agriculture in the Malay Archipelago has a long history.<sup>65</sup>

The evidence of the history of tin mining in pre-colonial Perak, on the other hand, is scanty. Therefore, it was not known when tin was first mined and exported; more data only began to appear at the beginning of the 19<sup>th</sup> century. For Malaya, Arab writers mentioned the presence of tin as early as the 9<sup>th</sup> century;<sup>66</sup> and according to Chinese historians, tin began to appear as a trade item in the 13<sup>th</sup> century. In Perak, the early tin-miners during the early 19<sup>th</sup> century were said to be Malays, although this activity was only carried out during the slack periods of the agricultural cycle.<sup>67</sup> At the turn of the century tin production in Perak was estimated to be about 9,000 *pikul* a year and in 1826 production of 6,000 *pikul* a year was said to be the output in 'quiet times'.<sup>68</sup> Tin mining only gained momentum in the 1840s with the discovery of rich tin fields in the Larut area and the mass immigration of Chinese miners into Perak.

The importance of rice cultivation to the Malays was best summed up by Wilkinson who said, "Agriculture is the soul of Malay life...[The Malay] is essentially a planter; his festivals are seasonal, his joys and sorrows depend on the crop; and his whole life is regulated by the rice-planting industry."<sup>69</sup> Although rice was the staple food of the Malays, Low's claim that they could not exist without their *bendang* or rice field seems

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<sup>65</sup>Hill, R. D. (1977). *Rice in Malaya: A Study in Historical Geography*, Kuala Lumpur: Oxford University Press, p.13.

<sup>66</sup>Yip Yat Hoong (1969). *The Development of the Tin-mining Industry of Malaya*, Kuala Lumpur: University of Malaya Press, p.55.

<sup>67</sup>Hill (1977), p.26.

<sup>68</sup>Anderson and Low cited in Khoo Kay Kim (1972), p.34.

<sup>69</sup>Wilkinson (1924), p.66.

to be an exaggeration.<sup>70</sup> In Perak, as elsewhere in Peninsular Malaya, there were two broad categories of rice agriculture: the first was that of wet padi<sup>71</sup>, grown in a field on low-lying flat land and near a water source; the second, known as dry padi,<sup>72</sup> was usually grown in *ladang* (swiddens) consisting of an area of felled and burned forests.

The two types of cultivation had different social impacts on the peasants. Although the first mode generally required the peasants to be permanent settlers, the second mode gave peasants an option. They could either be permanent settlers or mobile depending on the new location of land to be cultivated as *ladang* necessitated movement to a new patch of land after two or three harvests.<sup>73</sup> These two cultivation methods also entailed differences in land preparation. Wet padi required at least three years lead time in preparing the land before the first planting while dry padi could be planted once the trees were felled and burned. Among the peasantry, dry padi was more popular, but whichever methods were applied “it can be said that the cultivation of padi has served as a basis for the grouping of people in *kampungs* (villages) and that the padi cycle has moulded the distinctive rhythm of the Malay subsistence economy”.<sup>74</sup>

Generally, in terms of rice production, the peasantry produced just enough for their own consumption, after taking into account the share needed as agricultural exaction.<sup>75</sup> Perak

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<sup>70</sup>See Low, J. (1972). *The British Settlement of Penang*, Singapore: Oxford University Press, p.80.

<sup>71</sup>The terms ‘rice’ and ‘padi’ were often used interchangeably. ‘Padi’ means rice in the husk while ‘rice’ is the grain when unhusked.

<sup>72</sup>Dry padi is also known as hill padi or *huma*.

<sup>73</sup>Scholars, however, indicated that *ladang* peasants were strictly mobile in nature, for example, see Ooi Jin Bee (1963), pp.248-268; Gullick (1987), p.125-7; McNair (1972), p.71.

<sup>74</sup>Lim Teck Ghee (1976), p.43.

<sup>75</sup>Hill (1977), p.26.



used to be self-sufficient in rice;<sup>76</sup> the Dutch record - *Batavia Dag-Register* - did not contain a single record of the state importing rice during the early 19<sup>th</sup> century.<sup>77</sup> The agricultural practices in rice production were technologically well adapted and efficient to the prevailing environment then. Traditionally, rainwater was the main water source of supply in wet padi production, and as a large sinking capital was required to build dams and channels, the peasants found this a disincentive.<sup>78</sup> Dry rice production during the pre-colonial period, on the other hand, had gained popularity for easy mobility or flight especially under circumstances like damaging political events, civil wars, and oppression.<sup>79</sup> Therefore, there was constant movement of settlers and a reluctance to invest resources in permanent facilities. Another development that took place in 19<sup>th</sup> century Perak was when rice production began to increase rapidly in Krian, but it was without a permanent increase in its settlements.<sup>80</sup> This increase was based on migrant cultivators from Penang who came to Krian during the rice cultivation season and returned to Penang during the off-season.

As agriculture represented an important element in Perak Malay society, economy, and culture, it is therefore essential to understand the customary land tenure system, although the knowledge of this past indigenous institution is limited and commonly expressed in

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<sup>76</sup>Sufficient rice production was attained in 1839 to feed its population of about 35,000 people [Frederick, M., 'Social Aspects of Malay Society 1819-1879', B.A. thesis, Singapore: University of Malaya, 1961, p.18].

<sup>77</sup>Cited in Hill (1977), p.30.

<sup>78</sup>Gullick (1958), p.28-29.

<sup>79</sup>Sadka (1968), p.4.

<sup>80</sup>Hill (1977), p.94; Jackson, J. C., 'Rice Cultivation in West Malaysia' in *JMBRAS*, 45(2), 1972, p.90.

metaphorical sayings and expressions.<sup>81</sup> In the pre-colonial Malay States there was no concept of private possession or ownership of kind,<sup>82</sup> and in Perak the customary rules of landholding were divided into two broad categories: *tanah mati* ("dead land") and *tanah hidup* ("living land").<sup>83</sup> Any land that had not been appropriated or had been abandoned by the cultivator was known as *tanah mati*. This categorisation was applied equally to both prior cultivated and virgin land, particularly in the dry padi cultivation cycle. Continuous cultivation and long occupation of land led to the concept of proprietary rights; therefore, all *tanah mati* did not carry such rights. Rights to land were usufructuary which was the right to use but not own, as we understand it today.<sup>84</sup> As land was abundant, *tanah mati* was available for the taking for those wishing to occupy and cultivate it, as long as they were Muslims.

*Tanah hidup*, on the other hand, referred to land that had been cleared and was under cultivation. Provided that the land was occupied, the right to use it remained absolute as long as the stipulated exaction of one tenth of produce was paid<sup>85</sup> in the first instance to the territorial chiefs on behalf of the Sultan. In the case of abandonment of wet padi land, however, it required a period of three seasons before the cultivator's rights were forfeited and the land reverted to the status of *tanah mati*. Customary rules towards land planted with fruit trees designated a longer period of proprietary right. Despite abandonment, the property rights of the previous cultivator remained as long as the fruit trees survived.

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<sup>81</sup>For detailed discussion on the subject, see Wilkinson (1908), pp.1-45; and Hooker, M. B. (1967). *A Source Book of Adat, Chinese Law and the History of Common Law in Malayan Peninsula*, Singapore: University of Singapore Press Hooker, p.1.

<sup>82</sup>Hill (1977), p.45.

<sup>83</sup>Lim Teck Ghee (1976), p.5; Wong (1975), p.10.

<sup>84</sup>Jomo (1988), p.11.

<sup>85</sup>Lim Teck Ghee (1976), p.6.

Within these customary rules there were also supplementary rules to cover incidental matters such as the restriction on taking up land at a higher elevation than any existing cultivated land, though lower patches were allowed for cultivation provided they did not interfere with existing farming activity.<sup>86</sup>

The pre-colonial customary landholding system underwent various modifications throughout the period as pressure on land increased, rights to land became increasingly complex, and also 'dealings' in land ownership started to emerge. The doctrine that land belongs to the Sultan was based on his rights to levy exactions on agricultural produce and the disposal of unoccupied land.<sup>87</sup> By the time the British intervened in Perak, the customary rules were well developed to include out-and-out transfer, "letting", and "security transactions".<sup>88</sup>

Despite the importance of rice cultivation, some peasant farmers were also involved in supplementary tin mining activities.<sup>89</sup> Up until the discovery of tin on the island of Bangka in 1711, the main source of supply in the Malay Archipelago came from the Malayan Peninsula.<sup>90</sup> There was no expansion in the uses of tin in the Peninsula apart from in the manufacture of oil lamps, cast-net chains, musical instruments, and weapons. It was only when tin became an important commodity in the West that the market suddenly expanded. In those countries where the demand either in terms of quantity or

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<sup>86</sup>See Rigby, J., (ed.) (1929). *Ninety-nine Laws of Perak*, Kuala Lumpur: FMS Government Press.

<sup>87</sup>Lim Teck Ghee (1976), p.7.

<sup>88</sup>Wong (1975), p.11.

<sup>89</sup>For detailed discussion on the development of tin in Malaya, see Wong Lin Ken (1965). *The Malayan Tin Industry to 1914*, Tucson: The University of Arizona Press; and Yip Yat Hoong (1969). *The Development of the Tin-mining Industry of Malaya*, Kuala Lumpur: University of Malaya Press.

<sup>90</sup>Yip (1969), p.56; Wong (1965), p.3.

quality could not be met locally, they had to turn to other countries for their supply, and various Western powers had attempted to 'monopolise the tin trade first by the Portuguese after the conquest of Malacca in 1511 ...'.<sup>91</sup> The establishment of the Straits Settlements between 1786 and 1819 provided the British with a base to penetrate the Malay States in search of tin. The most significant stimulus for the demand for tin in Malaya came from the expansion of the British tinplate industry at the beginning of the 19<sup>th</sup> century,<sup>92</sup> which could not be met by supplies from the Cornish tin mines in England. At about the same time more areas of tin deposits were found in Perak and this saw the increasing integration of the state and Malaya into the world economy.

Tin mining in Perak was not extensively developed before the 1840s. The discovery of tin in the Larut Valley, a narrow tract of land between the Perak watershed and the sea, by Long Jaafar, then a territorial chief and later a *Mentri*<sup>93</sup> provided the stimulus for local expansion and began to change the structure of production. As the state's population was small and expertise was lacking, there was an immediate need for labour and entrepreneurial ability to exploit the newly discovered commodity. Malay labour was provided as *kerah* (corvée), but when agriculture demanded, the supply of labour in tin mining diminished. On the invitation of Malay territorial chiefs, Chinese immigrant labourers began to arrive in Perak.<sup>94</sup> The majority of these came from the maritime provinces of Kwantung and Fukien in southeastern China<sup>95</sup> and brought with them more economical and technically efficient methods of mining. The Chinese population in Perak

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<sup>91</sup>Wong (1965), p.3.

<sup>92</sup>Ibid, pp.4-6.

<sup>93</sup>Literally means minister but within the pre-colonial context the term referred to the post of State Justiciar.

<sup>94</sup>Wong (1965), p.21.

<sup>95</sup>Ibid., p.42; Sadka (1968), p.22; Gullick (1987), p.6.

began to soar. From a mere 400 Chinese in the state in 1818, comprising both miners and traders, the figure grew rapidly. In Larut alone the figure grew from three immigrants in 1848 to between 20,000 to 25,000 in 1862 and by 1872 there were reported to be 40,000 Chinese miners.<sup>96</sup>

This large-scale immigration of Chinese created problems for the Malay state. The numbers had escalated so fast that the immigrants had begun to outnumber the local population not only in Larut but also in Perak as a whole. These immigrants, who were either Hakka or Cantonese, were also members of secret societies such as the Hai San and Ghee Hin. Intense rivalry between them was inevitable,<sup>97</sup> especially where mining land was granted for exploitation without specific boundaries. The *Mentri* of Larut had only 40 administrators at his disposal to undertake the task of overseeing the large Chinese population.<sup>98</sup> Under such conditions it was difficult to maintain law and order as well as political stability. Rivalries among Malay territorial chiefs were also intense over the succession to the throne and the right to collect revenues. Among the Chinese, the rivalry developed into large-scale rioting in 1862 and lasted for about a decade. It was these disturbances that the British used as one of the reasons to intervene in Perak in 1874.<sup>99</sup>

Another driving force that had intensified the development of tin mining in Perak and elsewhere was the increasing price of tin in the European market. In 1840 the price was

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<sup>96</sup>Yip (1969), p.58; Wong (1965), p.18; Sadka (1968), p.23.

<sup>97</sup>Anonymous, 'Some Account of the Independent Native States of the Malay Peninsula' in *JSBRAS*, 6, 1880, p.162.

<sup>98</sup>Sadka (1968), p.27.

<sup>99</sup>Khoo Kay Kim (1974), p.92; Yip (1969), p.59.

£62 per ton and by 1872 it had risen to £152 per ton.<sup>100</sup> In Perak, from a reported annual export of 3,000 *bahara* in 1830, the volume increased to 11,000 *bahara* in 1871.<sup>101</sup> The Chinese were not granted property rights in mining land, only temporary rights of exploitation while the Malays did not have sufficient capital to run large tin mining operations. Therefore, in the early part of the 19<sup>th</sup> century the *modus operandi* was that the Chinese advanced the necessary capital to the Malays who in return would receive all the tin produced.<sup>102</sup> However, by mid-century Straits Settlements<sup>103</sup> Chinese capitalists, particularly from Penang, were allowed to open and operate mines with their own capital. In close association with investments in tin were those in rice and opium trading as well. It was the excess capital and declining trading profits in the Straits Settlements that compelled the Chinese capitalists to seek more productive avenues elsewhere and they consequently turned to Perak.

Therefore, up to British intervention in 1874 the large influx of labour and capital invested in tin mining had made the industry a wholly Chinese affair. It was said that the vital factors explaining Chinese supremacy in tin mining rested on their entrepreneurial skills and their organisational capacity in secret societies and technology.<sup>104</sup> The rapid growth of this industry accelerated trade in Perak. The inflow of capital from the Straits Settlements and the increasing presence of foreign traders had also influenced the local Malay society in, for example, the methods used among the chiefs in the government in

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<sup>100</sup>Wong (1965), p.29.

<sup>101</sup>Sadka (1968), p.21.

Conversion: 1 *bahara* = 3 *pikul* = 400lbs.

<sup>102</sup>Wong (1965), p.20; Andaya & Andaya (1982), p.138.

<sup>103</sup>The Straits Settlements comprises a collection of British colonies in Southeast Asia governed under unified administration formed in 1826. Within Malaya they comprised Penang, Singapore, Malacca, Province Wellesley, and Dindings. The crown colony status was dissolved in 1946.

<sup>104</sup>Wong (1965), p.40; Andaya & Andaya (1982), p.136.

commercial transactions when dealing with finance. However, the economic changes that took place had a minimal impact on the Malay peasantry. Rice cultivation and tin mining coexisted in relative harmony in the state economy, and the Malays and the Chinese generally kept to their separate ways under separate organisational arrangements. The Malays continued to live in their *kampung* while the majority of the Chinese resided in their mining *kongsi*<sup>105</sup> houses.

## **2.6 The role of the state in economic production activities**

In pre-colonial Perak the form of government was multi-tiered and decentralised. The role played by the state in all aspects of state economic activities was influenced and shaped by the way it was structured. Therefore, the district chief became the “key institution” in the political system<sup>106</sup> and influenced all economic production activities in the state.

The existence of land rent and the exaction of one-tenth of agricultural produce were often mentioned in most scholarly writings on Malay States during the pre-colonial period. However, Sadka indicates that this was not generally the case in Perak.<sup>107</sup> There were cases where taxes were levied on every male in Perak and also evidence that taxes were levied inconsistently according to the district chief’s directives. These taxes, however, were only related to poll tax and had no connection with land rent or exaction on agricultural produce. The revenue of the Sultan and district chiefs was very much

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<sup>105</sup> *Kongsi* houses were large dormitories situated near tin mines, each capable of housing twenty to a hundred men and run by the mine manager.

<sup>106</sup> Gullick (1958), p.94.

<sup>107</sup> Sadka (1968), p.385.

dependent on taxes imposed on imported as well as exported goods. The abundance of raw materials, especially tin, and the physical geography of the state with its scattered population meant that the option of collecting revenue through custom points was the best practical method. In an era where rivers were the main means of communication, taxation on riverine commerce became a favoured system.<sup>108</sup> With this system of taxation and the absence of land rent, theoretically the state could have indirectly encouraged agricultural production, which would cost relatively less. However, there was no need to do so in a 'natural' economy. Even if surplus production was encouraged, other factors prohibited the expansion of these activities. With the low density and scattered population, land-abundance was the main feature of pre-colonial Perak. Even if productivity could have been enhanced among the small population, the existing tax structure that imposed taxes on all exports, including agricultural produce, would have discouraged surplus production. This was in addition to the appropriation by the ruling class, which "essentially involved the direct use of coercion, without much recourse to ideological (legal) legitimisation".<sup>109</sup> 'State policy' was therefore in parallel where excess agricultural production among the peasantry was discouraged and had limited them to subsistence only. Any small surplus, if any, was used mainly for cultural festivities. This coherent 'policy' was partly attributed to the fact that taxes produced revenues that were much needed by a Sultan or a district chief, which in turn provided him with a power base.

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<sup>108</sup>Jomo (1988), p.13.

<sup>109</sup>Ibid.



In labour supply, *kerah* (corvée) exactions affected the majority of the inhabitants, specifically the peasants. Although the existence of the practice was acknowledged, the frequency, however, was not known; therefore the severity of its impact to peasants' production activities was very much dependent on its frequency. In slavery and debt-bondage, although the practice was not widespread,<sup>110</sup> it contributed to surplus production to a certain extent but it benefited only the masters who were either the district chiefs or other members of the ruling class. The existence of debt-bondage also had some economic effect on the state. As in slavery, debt-bondage could act as an investment, which was convertible into wealth accumulation through sale.<sup>111</sup> The main problem concerning *kerah* was the arbitrary nature of the limit and length of each task imposed on the *rakyat*. As most *rakyat* were subject to *kerah* exaction,<sup>112</sup> the economic activities of the *rakyat* were, in a way, restricted. The *kerah* exaction when utilised in the public interest and imposed infrequently, was beneficial to society but it was the misuse of such a system by the ruling class that disrupted the economic activities of the peasants.<sup>113</sup> In a period when state and personal revenue belonged to the same authoritative figure, it was difficult for such a person not to be seen as misusing such authority for his own benefit.

Wealth accumulation in pre-colonial Perak was mainly based on revenues derived from taxes and usurious activities, which could, in turn, be used as production capital. When

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<sup>110</sup>See fn.14.

<sup>111</sup>Gullick, however, asserted that the gain from the investment was converted into capital, see Gullick (1958), p.101. This was not really possible since production capital was, by and large, almost non-existent during much of the pre-colonial period in Perak.

<sup>112</sup>Exemptions were granted to aristocrats who were part of the ruling class as well as to some commoners; for details see Ibid., p.109.

<sup>113</sup>Swettenham (1929), p.142-3.

state and personal revenue were located and muddled up within the same authority, the available capital was not used to 'develop' the state but rather to enhance the status of the district chiefs. When tin mining activities gained momentum towards the mid-19<sup>th</sup> century investments in the industry by the ruling class began to take place. Although these investments were presumably on a joint-venture basis, in reality it was the investment capital from Straits Settlements' Chinese that helped set the venture in motion. In return the ruling class received a share of the profits from the partnership. Although these arrangements provided benefits for both parties, "it was apparent that economic initiatives were passing into alien hands",<sup>114</sup> and, therefore, this did not help expand economic activities among the local population. The contribution to the state can mainly be seen in the amount of tax collected.

Therefore, the issue of defining and delineating the locus of power and authority in the pre-colonial state of Perak created a problem in defining the role it played. As in many other Malay States, the district chiefs had 'total' power in governing their respective territories. It was to the extent that even those responsibilities which were in theory exercised by the Sultan were in practice implemented by the district chiefs. This eventually led to variations in administration and the roles played by the state. The lack of a clear distinction between 'public' work and personal interest further aggravated the problem. In the absence of land rent in Perak, which could have promoted economic activities, all other factors indicated that the role of the state in economic production was directed towards the exploitation of the indigenous population; it worked to the advantage of the district chiefs and the ruling class, and was not spread through the entire society.

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<sup>114</sup>Kennedy (1967), p.154.

Undoubtedly, the existence of *kerah* and slavery had negative consequences for the masses. However, its existence enabled the state, because of its control over the *rakyat*, to facilitate a limited amount of 'development' due to its authoritative nature.

## 2.7 Summary and conclusion

The feudal structure of pre-colonial Perak, in general, led to an economy that was subsistence in nature. The structure of the Malay state was closely interrelated with the pre-capitalist system; it was a system mainly characterised by production for use.<sup>115</sup> However, production for exchange was not totally absent nor was the economy entirely self-contained. Among the peasantry, production was highly localised in small units and exchanges did occur sporadically for items of necessity, which they did not produce themselves. On a larger scale, production for exchange took the form of trade monopolised by the ruling class exercising patrimonial authority in accumulating economic benefits. The concentration on production for use was also due, to a small degree, to the difficult physical environment of Perak at that time, the rare occurrence of established markets, the isolation of inland settlements from primary economic centres, and the small overall scattered population.

The availability of technology and innovation in production during that period was low, including those of the main activities of agriculture and mining. This resulted in an output that was neither quantitatively large nor easily expandable. During the early 19<sup>th</sup> century when large-scale immigration of Chinese came into Perak to work in the tin-mines,

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<sup>115</sup>Scott, J. C. (1976). *The Moral Economy of the Peasant*, New Haven: Yale University Press Scott, p.13.

radical changes in technology took place with the introduction of hydraulic devices in tin mining production. This technology was a modification of that used to irrigate rice fields in southern China. Interestingly if the same technology had been introduced in its original or in a modified form to suit local conditions probably the landscape of rice cultivation and production could have changed earlier rather than later.

In order for an economy to grow, intensities have to be generated both internally and externally. For Perak, economic internal intensity had to come from at least two elements: the need for an increase in both population and production capital, given their scarcity. The requirement of land for use was never an issue since it was in abundance, which therefore created little incentive to economise except in areas where inhabitants were reluctant to move further away. Pre-colonial Perak also had huge deposits of natural raw materials, which were capable of enhancing economic activities. The key element for future economic development was the availability of tin, which had an external market and was increasingly sought after by international users. While tin contributed as the main surplus to production, secondary to it was the importance of forest products, which were also in demand. Rice cultivation, on the other hand, also remained as an important traditional economic activity.

The growth of population in pre-colonial Perak was minimal considering the large area of the state and the economic opportunities available. In the mining sector, labour was not a critical concern since labourers were brought in from South China by Chinese tin-miners. It was in the labour-intensive agricultural sector that there was an increasing need for

human resources. Despite the immigration of foreigners from surrounding regions who were willing to take up agriculture, the numbers were not sufficient to intensify agricultural activities.

Within the framework of pre-colonial Perak the mechanisms for and interests in capital accumulation were lacking without which economic expansion could not be realized. The availability of some kind of capital accumulation among the ruling class, mainly from taxes, usury and financing of small tin mines prior to the immigration of the Chinese, was not used for further capital accumulation. Usually, surpluses were treated as wealth rather than capital accumulation and were put to other uses in enhancing status, prestige and power.

The external intensity came mainly from trade. This acted as a principal influence to instigate change and economic growth. Perak was located on the main trade route between Europe and Asia. The establishment of the Straits Settlements – Penang (1786), Singapore (1819) and the acquisition of Malacca from the Dutch in 1824 further influenced and compelled Perak's involvement in the global economy. The 19<sup>th</sup> century saw increasing involvement of foreign capital, especially from the Straits Settlements, and also the growing importance of commodity export production, notably tin.

Throughout the 'pre-colonial' period the political and economic systems were closely integrated. The 'pre-capitalist' Malay state was founded largely on an agricultural population, on an ethnically homogeneous constituency of the Malay stock, and on a

politico-ideological system focused on the Sultan and his immediate supporters. Politics and economics were closely intertwined and evolved around pre-capitalist authoritarian rules. Due to the external pressures put upon the state to encourage economic growth, reinforced by the Western search for new markets and avenues for capital investment, by the middle of the 19<sup>th</sup> century pre-colonial Perak was no longer able to resist the early penetration of capitalism. The economic development achieved in pre-colonial Perak was modest but at the expense of the *rakyat*; it was based on the personal interests of the ruling elite. Therefore, another key element for future economic development required a clear distinction between the government (ruler) and the economy. However, by the time the British intervened in Perak in 1874 the state already had export production in place. This had been primarily developed by immigrant labour under the auspices of Malay chiefs, adopting new technology and production capital from the Straits Settlements.

## CHAPTER 3

### THE TRANSFORMATION OF POLITICAL AND ECONOMIC STRUCTURES IN THE COLONIAL PERIOD (1874-1957)

#### 3.1 Introduction

This chapter delineates and analyses the political economy of Perak during the colonial period. Specific transformations that have taken place will be presented in order to demonstrate how Perak was incorporated into the world system and the consequences of this process. Further industry-specific analyses of the rice, tin and rubber sectors will be presented in chapters 4 and 5.

The Pangkor Engagement in 1874 marked the official beginning of British colonial history in Perak. It was the first stage of political penetration into the Malay States by the British.<sup>1</sup> In economic terms, however, the interrelationship between Perak and the West, including Britain, commenced earlier because of the export of tin from Perak to the West during the pre-colonial period. Although the Engagement merely stated that the State of Perak was to accept a British Resident whose advice was to be sought and acted upon in

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<sup>1</sup>Although 1874 has been widely accepted by many scholars such as Cowan and MacIntyre, and others as the beginning of British intervention in Perak and other Malay States, Khoo Kay Kim, on the contrary, strongly argued against this and considers the Pangkor Engagement as the beginning of the establishment of British administration in the Malay States, see Khoo Kay Kim, 'The Origin of British Administration in Malaya' in *JMBRAS*, 39(1), 1966, pp.52-91; Cowan, C. D. (1961). *Nineteenth-Century Malaya: The Origin of British Political Control*, London: Oxford University Press; MacIntyre, D., 'Britain's intervention in Malaya: The origin of Lord Kimberly's instructions to Sir Andrew Clark in 1873' in *Journal of South-East Asian History*, 2(3), pp.47-69; also Khoo Kay Kim, 'The Pangkor Engagement of 1874' in *JMBRAS*, 47(1), 1974, pp.1-12. Tilman, on the other hand, saw the Engagement as the beginning of bureaucratic transition in Malaya, see Tilman, P. O. (1964). *Bureaucratic Transition in Malaya*, Durham: Duke University Press.

all matters, with the exception of those concerning Malay religion and custom, he was also vested with the powers to regulate the collection of all revenues and administration.<sup>2</sup>

The intervention of the British in Perak also marked the beginning of a new economic era for the state. Lim (1977) asserted that the colonial government provided vital incentives for the economic development of the Malay States,<sup>3</sup> and indeed major transformations took place in eight decades of colonialism. The introduction of a different system of authority also led to significant changes in their political structure. In terms of the economic structure, the Malay States became one of the major world suppliers of raw materials and at the same time became increasingly dependent on outside labour and technology. In the social dimension, there was a change from a primarily Malay society to a multi-ethnic population. These changes were brought about by a 'new' style of government, which actively promoted a market-driven economy.

### **3.2 Social and political structures**

The British intervention required the establishment of a systematic administrative structure in the state.<sup>4</sup> Modelled on the British system, such an orderly system was deemed crucial if government rule was to be enforced, economic exploitation to be

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<sup>2</sup>It was also argued that, in practice, the Engagement also amounts to loss of sovereignty for Perak and the opening of the door to immigrants, commercial capital as well as international finance, see Wang Gungwu, '1874 in our history' in *Peninjau Sejarah, Journal of the History Teachers' Association of Malaya*, Vol. 1, No.1, 1966, p.14.

<sup>3</sup>Lim Teck Ghee (1977), p.13.

<sup>4</sup>Chai Hon-Chan (1967). *The Development of British Malaya 1896-1909*, Kuala Lumpur: Oxford University Press, p.9.

Hugh Low, the third British Resident of Perak, however, acknowledged the existence of a traditional system of local government and strongly supported its preservation under British rule [Sadka (1968), p.113]



further intensified, and capitalism to prosper. Previous experiences in other colonies had taught the British the advantages of indirect rule and governance through the indigenous leaders, in Perak's case, the Malay *penghulus*<sup>5</sup> and the Sultan.

The first test for the British in maintaining law and order was to combat slavery. In the eyes of the British, slavery was seen as an obstacle to economic development because it was regarded as archaic and incompatible with capitalist economy. Slavery was considered as an oppressive mode of labour control that discouraged high productivity and enterprise<sup>6</sup> whereas the British favoured a free wage labour system. In Perak, the number of slaves was not large and was estimated to be around 3,000 in 1874 with almost equal numbers of males and females, held by both royalty/nobility and commoners.<sup>7</sup> However, the British were faced with determined and sustained Malay opposition, and abolition posed chronic political and administrative problems. The strategy of pursuing the issue unhurriedly but persistently finally resulted in its abolition in 1883,<sup>8</sup> though not without difficulty.<sup>9</sup>

The abolition of *kerah* took even more time because of the opposition of the district chiefs. Unlike slavery, where the ruling class and the *rakyat* both had access to the system, *kerah* was only available to the former. By 1882 the *kerah* institution in Perak had gradually changed into a combination of a poll tax system and a fixed duration of

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<sup>5</sup>*Penghulu* (village headman) was the only position from the pre-colonial government that was retained under British administration and acted as the link between the government and the rural Malays.

<sup>6</sup>Jomo (1988), pp.7-10.

<sup>7</sup>Aminuddin Baki (1983), p.29; Chai Hon-Chan (1967), p.292; see also fn.14 in Chapter 2.

<sup>8</sup>Chai Hon-Chan (1967), p.12; Gullick, J. M. (1992). *Rulers and Residents*, Singapore: Oxford University Press, p.44; Sadka (1968), p.111; see also fn.13 in Chapter 2.

<sup>9</sup>The strategies adopted by the British towards the abolition of slavery in Perak can be found in Philip Loh (1964/65), pp.1-14.

corvée labour. Further changes were made throughout the phasing out of the system and by 1891 it was abolished altogether.<sup>10</sup>

The abolition of both *kerah* and slavery had important impacts on small-scale cultivators as well as the state. In the case of slavery, the slaves became free and were able to pursue any economic activity they wished; with *kerah*, its abolition meant that peasants were able to concentrate on productive activities without interruption. The traditional basis of production for the upper class was therefore replaced by a system of 'free' wage labour, which, on the whole, underpinned economic growth for the *rakyat* as well as the state.

The establishment of British rule in Perak also involved a number of changes in the political structure. The preservation of the Sultan's status and his symbolic position was important to maintain a facade of Malay rule, though he was removed from active involvement in the government as there was a shift of power to the British Resident.<sup>11</sup> The Pangkor Engagement also demonstrated the British ability to determine the appointment of the Sultan. They supported the candidacy of someone who would come under their influence and be sympathetic to British policy.<sup>12</sup>

In the implementation of British indirect rule in Perak, the ruling class suffered more than the Sultan.<sup>13</sup> They found themselves increasingly marginalized in the new government. Under the Engagement, both the Sultan and his chiefs lost their rights to collect taxes and

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<sup>10</sup>For detailed discussion of the abolition of the *kerah* system, see Lim Teck Ghee (1976), pp. 68-9.

<sup>11</sup>Sadka (1968), p.156.

<sup>12</sup>For example, during the Pangkor Engagement itself Sultan Ismail, by custom, was to succeed to the throne but was replaced by Sultan Abdullah with the assistance of the British.

<sup>13</sup>Gullick (1992), p.1.

duties. The district chiefs had also been almost entirely removed from their line of authority; most of them were given positions in the State Council. However, their influence was restricted to Malay social matters that were raised in Council business. The chiefs from districts that were rich with natural resources, such as tin suffered even more. Both the Sultan and the district chiefs, however, were compensated with monthly allowances from the state treasury for their loss of tribute.

The sidelining of district chiefs from the state administration resulted in the emergence of a new type of leader<sup>14</sup>. Under the new system, the position of district officer was initially filled by the British. Most notable was the use and deployment of *penghulus* in administering the state at the local level.<sup>15</sup> This policy was seen as in line with the British intention to preserve and develop the traditional system of government and at the same time to keep the state's expenditure under control<sup>16</sup> in maintaining peace and order.<sup>17</sup> Therefore, the role of *penghulus* changed drastically during the colonial period. As part of their duties, they were also involved in land matters following the introduction of the colonial land policy, which saw individual landholdings introduced<sup>18</sup> and land become a commodity. Their appointment, which was previously under the domain of the Sultan, was transferred to the British Resident.

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<sup>14</sup>Ibid, p.100; Lim Teck Ghee (1976), p.150.

<sup>15</sup>During colonial government the jurisdiction of *penghulus* was expanded to cover the *mukim* or sub-district rather than a single village as in the pre-colonial period. For a brief description of the *penghulus* involvement in state administration during the colonial period, see Kratoska, 'Penghulus in Perak and Selangor: The rationalization and decline of a traditional Malay office' in *JMBRAS*, 57 (2), 1984, pp.31-59.

<sup>16</sup>In contrast to the pre-colonial period, *penghulus* in the Federated Malay States since the start of the colonial period were salaried and received between \$15 and \$30 a month, see Ibid, p.34; Jagjit Singh Sidhu (1980). *Administration in the Federated Malay States 1896-1920*, Kuala Lumpur: Oxford University Press, p.152.

<sup>17</sup>Sadka (1968), p.113.

<sup>18</sup>Gullick (1992), p.185; Drabble (2000), pp.93-4.

Within the framework of indigenous participation in state administration, the British also established two institutions which were to have a considerable impact on the social status of the Malays. The first was the creation of the State Council and the second, the Malay Administrative Service (MAS) by the FMS government. Apart from encouraging Malay participation, these two institutions were also used as a vehicle to provide the former ruling class with a place in the new regime.<sup>19</sup> The participation of Perak Malays in the British administrative system was demanded by the Malays themselves rather than invited.<sup>20</sup>

The establishment of the Perak State Council in 1875, on the surface, was designed to assist the British Resident in all matters pertaining to the business of government. With the growth in population of both the Malays and the Chinese, it was also a means of bringing together both the Malay chiefs and a small number of Chinese leaders to address certain administrative problems. In the first two decades of the colonial government, the State Council was the key institution in gathering support from across the community.<sup>21</sup> However, there was a growing resentment among its members, especially amongst the Malays, due to the priority given to European and Chinese capitalist interests in British policy. In practice, important state matters such as economic planning, fiscal policy and also land tenure were in the hands of the British. The British left the State Council primarily with a limited range of Malay social matters and the implementation of the policies that had already been decided upon; the Council was designed to 'maintain the

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<sup>19</sup>Ibid, p.1.

<sup>20</sup>See Jagjit (1980), pp.152-8. This was contrary to the view of Lim Teck Ghee who asserted that Malay participation in the British administrative system was invited rather than demanded, see Lim Teck Ghee (1976), p.150.

<sup>21</sup>Gullick (1992), p.333.

fiction of Malay rule'.<sup>22</sup> It did, however, provide a channel of communication between the *rakyat* and the government. Despite the lack of participation in shaping state economic development programmes, the State Council remained 'an essential instrument of government under the Residential system'.<sup>23</sup>

If the State Council was established to assist the British Resident and to provide advice on state policies, the MAS, established in 1910, was designed for direct Malay participation in state administration. The policy was to provide appropriate education and training to help the Malays qualify for government appointments.<sup>24</sup> The positions of state and district officer once held only by the British were gradually transferred to the Malays. The establishment of the Malay College Kuala Kangsar (MCKK) in 1905 emphasised the significance of colonial education policy, the main objective of which was to create a professional cadre of Malay administrators.<sup>25</sup>

As for the *rakyat*, colonial rule relieved them of the onerous and demanding institutions of slavery and *kerah*. Colonial rule also meant that the two-class social stratification of the *rakyat* and the ruling class disappeared. New social classes emerged which were closely tied to economic status and achievements as a result of the introduction and utilisation of wage labour and the means of production directed to profit generation. The abolition of *kerah* and slavery also provided the Malay population of Perak with

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<sup>22</sup>Lim Teck Ghee (1977), p.11; Chai Hon-Chan (1967), p.16.

<sup>23</sup>Sadka (1968), p.176.

<sup>24</sup>Gullick (1992), p.101.

<sup>25</sup>For the history that lead to the formation of MCKK, see Jagjit (1980), pp.142-152.

opportunities for social mobility. The old habit of total obedience towards the 'former' ruling class was gradually undermined,<sup>26</sup> although not towards the Sultan.

The introduction of a new land tenure system to replace customary land dealings provided the basis for the new capitalist economy. The Malays began to be exposed to the concept of land as a commercial and marketable commodity. This provided an opportunity for them to enhance their economic position. It, however, resulted in pressure on the Malay peasantry and loss of land<sup>27</sup> to the non-Malays which eventually gave rise to the Malay Reservation Enactment in 1913.<sup>28</sup> With the restrictions imposed by the Enactment that disallowed land sale to non-Malays, Malay land became less valued compared to that outside the reservations. Although the policy to protect the Malays from landlessness was noble, it placed them at an economic disadvantage. The boom in the price of rubber during the second decade of the 20<sup>th</sup> century, however, helped to counter the problem as peasants began to take up the part-time planting of commercial crops to boost their income.<sup>29</sup>

The movement of Chinese labourers into Perak that had begun during the pre-colonial period continued and gathered pace; after 1874 the colonial government continued to promote this mode of labour supply as more tin mines were opened.<sup>30</sup> Towards the end of the 19<sup>th</sup> century, immigrants from Java were also brought into Perak who later settled

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<sup>26</sup>Gullick (1992), p.337.

<sup>27</sup>For further discussion on this issue, see Section 3.6 Land under colonial rule.

<sup>28</sup>See Lim Teck Ghee (1977), pp. 106-116.

<sup>29</sup>Ibid.; The impact of rubber on the peasantry during the colonial period is discussed in Section 5.4.

<sup>30</sup>For colonial labour policy on the tin industry, see Yip Yat Hoong (1969) *The Development of the Tin-mining Industry of Malaya*, KL: University of Malaya Press; for the rubber industry see Parmer, J. N. (1960). *Colonial Labour Policy and Administration*, NY: JJ Augustine; see also Section 3.5 on the influx of foreign labour for both industries.

as rice cultivators in the areas of Lower Perak and Krian.<sup>31</sup> In addition, the sudden surge in the demand for rubber in the early 20<sup>th</sup> century resulted in immigrant labourers migrating from southern India to work in the rubber plantations. By 1920 there was also an increasing proportion of transient migrant labourers settling in Malaya, including Perak.<sup>32</sup> The three main ethnic communities of Malays, Chinese, and Indians coexisted and were linked through market exchange but they were largely economically and politically separate in a plural society.<sup>33</sup>

British rule in Perak transformed pre-colonial society based prominently on kinship and personal ties with the introduction of Western administrative and judicial values. Such transformation encouraged a market-driven economy to prosper. New forms of occupational specialisation, and administrative and social organisation were introduced and the economy increased in scale and diversity. The British, therefore, fostered the emergence of a modern state in Perak.

### **3.3 The exchange economy**

Pre-colonial Perak was characterised by a subsistence economy though this does not mean that there were no material exchanges. Although production was mainly for use, necessary material goods that were not produced locally were obtained through exchange. Gullick (1958) states that the economy was 'by no means a closed and self-sufficient

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<sup>31</sup>Wan Hashim (1988). *Peasants under Peripheral Capitalism*, Kuala Lumpur: Universiti Kebangsaan Malaysia, p.72; Sadka (1968), p.328.

<sup>32</sup>Gullick (1992), p.333.

<sup>33</sup>We should also note, as we shall see later, that the three major ethnic groupings have emerged from complex mixes of 'Malay', 'Chinese' and 'Indian' populations, and these three ethnic labels are very simple referents, which have been used to capture this complex reality.

system'<sup>34</sup> and he points out that the limited exchange economy, which placed monetary values on material goods, was already present as part of the Malay culture.<sup>35</sup> However, the majority of the transactions were still based on barter and surplus production was not a primary objective. British colonialism gradually changed this. Given the paucity of information, it is not possible to trace the beginnings of the exchange economy in Perak.

However, on a global scale, the influence of the Industrial Revolution that originated in northwestern Europe began to spread to other parts of the world. Perak was located along the vital commercial route between Southeast Asia and Europe and British colonialism further facilitated the movement of cheap manufactured goods from Europe. The introduction of imported 'modern' goods and services accelerated the development of an exchange economy<sup>36</sup> in Perak. The introduction of money as a medium of exchange further encouraged the development of capitalism.<sup>37</sup>

At the local level, the changes implemented during the colonial period had also stimulated the exchange economy among the peasants.<sup>38</sup> The encouragement given by the colonial government to foreign capital, particularly from the British and Straits Chinese capitalists, meant that exchange channels which were previously limited, became more widely developed. This, coupled with the increasing production of tin and later

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<sup>34</sup>Gullick (1958), p.20; Ooi Jin Bee (1959), p.172.

<sup>35</sup>Gullick (1987), p.124.

<sup>36</sup>Lim Teck Ghee (1977), p.135.

<sup>37</sup>Gullick (1958), p.20 referred to exchange values expressed in Straits dollars. For the development of currency during the pre-colonial and colonial periods, see Lim Chong Yah (1969). *Economic Development of Modern Malaya*, Kuala Lumpur: Oxford University Press, pp.221-5; also Chiang Hai Ding (1966), pp.1-18.

<sup>38</sup>Frederick (1961), p.9 contends that the introduction of money was one of the factors that disrupted Malay life, saw the beginning of the collapse of the peasant economy, and that forced many traditional institutions to give way.



rubber,<sup>39</sup> resulted in the expansion of trade with the Western world and the growth of secondary activities including the development of the financial sector.

One of the major factors that had forced changes in the peasant economy was the introduction of the colonial land tenure system that gave emphasis to the concept of private landholding and ownership. Land was regarded as (and still is) a commodity with a monetary value and could therefore be bought and sold. The prospect of land being used as collateral had started to become apparent during the late pre-colonial period<sup>40</sup> and the introduction of the new tenure system only further strengthened its occurrence. This brought a new dimension to the inhabitants of Perak in contrast to the pre-colonial economy in which land was the prerogative of the Sultan. Private ownership allowed them to sell land to raise money to be used as production capital or to pay off loans.

Along with the changes that took place in the land alienation system, the British also introduced an agricultural policy based on the parallel development of both native as well as plantation cultivation. While the plantation policy was a success, native agricultural policy was not. Although it was intended that the peasant economy would focus on the cultivation of rice, other factors emerging from market forces and the physical infrastructural transformation of Perak prevented this from happening. The colonial government's directives to restrict cultivation only to rice, fruits and vegetables were not

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<sup>39</sup>For the development of the tin and rubber industries during the colonial period, see Chapter 5.

<sup>40</sup>Jomo (1988), p.11.

adhered to because small farmers were drawn into commercial agriculture and commodity exchange.<sup>41</sup>

In the new economic order, peasants' attitudes towards production changed, along with the removal of traditional constraints on labour. Labour was diverted into market-based activities, particularly in those areas close to tin mines or commercial centres where income-generating opportunities abounded. The emphasis on production for exchange had also contributed to the undermining of the Malay concept of *gotong-royong* (mutual help).<sup>42</sup> At the same time rice cultivation began to play a less central role due to its relatively low returns. Although it provided the staple food, the surplus if any, only allowed the peasants to improve their income marginally<sup>43</sup> while other available productive activities such as the planting of cash crops, for example, gambier, pepper, and tapioca could provide faster and better returns.<sup>44</sup> The increasing population of Perak also created an ever-increasing demand for food products, including rice, for sale in the market place.

While rice cultivation had been the main activity pursued, the introduction of rubber planting in the early 20<sup>th</sup> century intensified peasant commodity production as it fitted well with the peasants' limited resources and provided better returns.<sup>45</sup> The response from the peasants was so dynamic that by 1910 peasant rubber smallholding had already

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<sup>41</sup>For a detailed account of the peasantry during the colonial period, see Lim Teck Ghee (1977), pp.229-35.

<sup>42</sup>Mokhzani Abdul Rahim (1973). 'Credit in the Malay Peasant Economy', Ph.D. Thesis, London: University of London, p.429.

<sup>43</sup>Sharom Ahmat (1984). *Tradition and Change in a Malay State: A Study of the Economic and Political Development 1878-1923*, MBRAS, Monograph No.12, p.176.

<sup>44</sup>Lim Teck Ghee (1976), p.135; Kratoska, P. H. (1975). *The Chettiar and the Yeoman*, Occasional Paper No.32, Singapore: The Institute of Southeast Asian Studies, p.8.

<sup>45</sup>*Ibid.*, p.231.

dominated a large section of the commercial economy in the agricultural sector. With this, larger and more regular income consumption patterns began to change.

Another development that further exposed the population of Perak to the exchange economy was new capital investment undertaken by the colonial government, particularly for the construction of railways and roads. Communication, therefore, became more efficient with easier movement of goods to fulfil new demands in consumption.<sup>46</sup> Along with it came the import of technologies for the production and maintenance of transport, and the development of knowledge and skills to maintain and operate the equipment.

### **3.4 Foreign and local investment**

During the period between 1874 to 1957 Perak became increasingly dependent on the outside world for consumable products and was integrated into a wider capitalist economy. The important role in generating economic growth was played by local and foreign investment.

The increase of control by the British over Malaya led to rapid economic development based primarily on the exploitation of raw materials and the market for manufactured goods from the West. Thus, the capitalist industrializing 'metropole' became linked to the Malayan 'satellite'. The capitalists' decision to invest in Perak was based on the usual consideration of profits and security within the framework of a reliable, smooth

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<sup>46</sup>For a detailed historical description of infrastructural development, especially roads and railways, see Amarjit Kaur (1985). *Bridge and Barrier: Transport and Communications in Colonial Malaya 1870-1957*, Singapore: Oxford University Press.

functioning, developing capitalist economy. In this section, the development and transformation of local and foreign investment<sup>47</sup> that took place in Perak during the colonial period in the tin mining and rubber-growing sectors will be examined.

Tin mining had long pre-dated British intervention in Perak. The Malays were known to be the early tin-miners. However, it was only after the arrival of Chinese entrepreneurs from the Straits Settlements that a rapid increase in investments and the commercial production of tin took place, even though during the initial stage 'they [the Chinese] remained cautious and refrained from direct involvement in production'.<sup>48</sup> Right from the beginning, the Chinese seized the opportunities created by the colonial administration. There are no statistics available pertaining to their total investment during the initial years. However, given the basic technology involved in Chinese tin production, it can be inferred that investment in capital fixed assets was low. Production was extremely labour-intensive and shortage of labour therefore necessitated more foreign labour from South China to be imported under the credit-ticket system;<sup>49</sup> this system required heavy upfront capital investment on the part of mine-owners.

Chinese investment in tin mining in Perak did not come from Mainland China but was primarily from Chinese in the British colony of Penang. These were immigrants who had

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<sup>47</sup>Foreign investment in this section relates to capital brought into Perak from outside Malaya while local investment comprises private capital investments raised within Malaya. The issue of investments, however, can only be presented in terms of scale and trend, as complete data are not available.

<sup>48</sup>Jomo (1988), p.161.

<sup>49</sup>This system refers to the importation of Chinese foreign labour whose passage was paid by coolie-brokers and later transferred to mine-owners. The immigrants, in exchange, had to provide services to the mine-owner for a specified period to settle the debt. This system became common towards the end of the 19<sup>th</sup> century. Prior arrivals were unassisted and voluntary. For details of the system, see Yip Yat Hoong (1969); also Chai Hon-Chan (1967), pp.102-27; Jomo (1988), p.162.

arrived much earlier and had established themselves as merchants and traders. They had accumulated significant wealth and were ready to divert it into the tin mining industry. So far, no estimate of the size of Chinese investment in Perak's tin mining has been carried out. However, we can examine the following figures to obtain a rough idea of the scale of investment in the early years of mining: by the late 1880s the number of Chinese immigrants in Perak was about 80,000 people;<sup>50</sup> about half of these were on the credit-ticket system;<sup>51</sup> and the price of each credit-ticket immigrant was between \$20 to \$29.<sup>52</sup> Therefore, the amount of upfront investment required just to bring in part of their labour needs alone amounted to between \$800,000 and \$1,160,000, excluding other production investment needed for the mining operations. This was at a period when Larut was on the verge of maximum production and Kinta was just coming on stream, later to become the largest tin producing area in the world. The credit-ticket system, however, declined in popularity towards the end of the 19<sup>th</sup> century,<sup>53</sup> partly due to the excessive cost charged by coolie-brokers and partly due to opposition by the Chinese government, which eventually saw its abolition in 1914.

At the beginning of the 20<sup>th</sup> century a new system of tin mine operation known as the tribute or *hun* system<sup>54</sup> emerged. New mines were opened by groups of immigrant labourers who by then had fulfilled their obligations under the credit-ticket system and

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<sup>50</sup>Fermor, L. L. (1939). *Report upon the mining industry of Malaya*, Kuala Lumpur: Government Press p.22.

<sup>51</sup>Yip Yat Hoong (1969), p.75.

<sup>52</sup>Ibid., The price of a credit-ticket immigrant was Malayan \$17-\$20 in 1876 and increased to \$29-\$30 in 1890. It is therefore appropriate to assume that the price between both years was somewhere in between as demand for labourers was on the increase.

<sup>53</sup>*Perak Government Gazette 1894 (PGG)*, p.152.

<sup>54</sup>This system is based on profit-sharing among all involved in the tin extraction operations with the leader commanding a bigger share. See Chai Hon-Chan (1967), p.113; Yip Yat Hoong (1969), pp.80-1; Jomo (1988), p.167.

were 'free' labourers. In the FMS, by 1903, almost 50% of the 186,337 Chinese immigrant labourers were working under this system<sup>55</sup>, which led to a change in the investment structure of tin mines. The rest were employed either as wage earners or were under contract. The initial high capital investment on labour input was no longer required as almost the entire workforce were 'shareholders'. The Chinese mining system finally declined as the extraction techniques employed, which relied on easily accessible deposits, were becoming unsuitable. Towards the end of the 1920s Chinese dominance was replaced by Western enterprises.

Western involvement in tin mining was slow to start. This delay was attributed to the mismatch between the needs of the industry and the Western technology brought in during the early stage. Western technology, along with a broad organisational structure, promoted high operating costs<sup>56</sup> that were unable to compete with the Chinese. Despite the assurance given by the colonial administration on the stable political situation as well as incentives offered to the Western capitalists, such as large grants of mining land given to initiate mining activities, it was not until the 1880s that there was a response. Swettenham<sup>57</sup> reasoned that this situation was such because 'British capitalists declined to risk even small sums in the Malay States till years after the enterprise and industry of the Chinese had established and developed the mines'.<sup>58</sup> Although only scanty information is available on Western companies operating in the tin mining industry in

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<sup>55</sup>Chai Hon-Chan (1967), table on p.122.

<sup>56</sup>Allen, G. C. and Donnithorne, A. G. (1962). *Western Enterprise in Indonesia and Malaya*, London: George Allen & Unwin Ltd., p.151.

<sup>57</sup>F.A. Swettenham was a British official who spent his lifetime career in Malaya. In the 1880s he was Resident of Perak.

<sup>58</sup>Swettenham (1929), pp.262-3.

Perak prior to 1900, the first Western enterprise to be established was a French company known as Société des Mines d'Etains de Perak in 1883.<sup>59</sup> The first British enterprise to venture into tin mining was the Gopeng Mining Company, floated in 1892 with Cornish capital.<sup>60</sup> By the end of the century both companies were the only two Western enterprises operating in Perak,<sup>61</sup> though two other companies had been established but had closed their operations down for unknown reasons. The total investment of foreign companies in Perak prior to 1900 cannot be estimated. However, it was reported that between 1882 and 1900 a total of 47 British tin mining companies were registered in the FMS with a total authorised capital of £4.8 million and an estimated issued capital of £1.9 million.<sup>62</sup> Some of these companies did not even commence actual operation and for those that did, they failed to survive the competition from the Chinese and the low tin price during the period 1894 to 1898.<sup>63</sup> It was not known for certain why only four, out of 47 companies registered, were in operation in Perak. It could, however, be due to the overwhelming presence of the Chinese in the state that these companies decided to operate in other Malay States.

Post-1900 foreign investment in tin mining is better documented. The revival of the tin price at the beginning of the 20<sup>th</sup> century that surpassed the £100 per ton mark saw

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<sup>59</sup>Chai Hon-Chan (1967), p.164; Yip Yat Hoong (1969), pp.96-7. From 1886 onwards this company was amalgamated with another French company, and known as Société des Etains de Kinta with a combined capital of 3 million francs, see Rawlins J. S. D., 'The French enterprises in Malaya' in *JMBRAS*, 39(2), 1966, p.53.

<sup>60</sup>*Ibid.*, p.165; *Ibid.*, p.97.

<sup>61</sup>Parry (1898), pp.25-6 cited in Yip Yat Hoong (1969), p.97.

<sup>62</sup>In Tinland, Vol. IV, No.9, August 1908, p.138 cited in Yip Yat Hoong (1969), pp.98-9, Table I-8. These figures contradicted the view of Tregonning, based on the reasons for British intervention in the Malay States that there was almost no British capital investment in the Malay States up to 1896, see Tregonning, K. G. (1964). *A History of Modern Malaya*, London: Eastern Universities Press Ltd., p.143.

<sup>63</sup>See Table 5.3.1 in Section 5.3.

foreign investment, particularly British, begin to increase. By 1939, there was a total of 129 European companies operating in the FMS.<sup>64</sup> Again, although complete data on investment by foreign companies engaged in all modes of tin production is unavailable, the total issued capital in dredging companies operating in Perak during the period 1900-1957 provides an indication of the level of investment (see Table 3.4.1).

**Table 3.4.1 Perak: Tin Dredging Companies Incorporated and Operating between 1900-1957**

	Name of company	Place of Registration	Year	Issued Capital
1	Tronoh Mines Ltd.	London	1901	£ 2,150,375
2	Siamese Tin Syndicate Ltd.	London	1906	£ 819,600
3	Pengkalen Ltd.	Redruth	1907	£ 270,919
4	Malayan Tin Dredging Ltd.	London	1911	£ 1,852,445
5	Kamunting Tin Dredging Ltd.	London	1912	£ 668,750
6	Taipng Consolidated Ltd.	Kuala Lumpur	1917	£ 1,027,000
7	Johan Tin Dredging Ltd.	Ipoh	1920	£ 15,869
8	Southern Malayan Tin Dredging Ltd.	London	1925	£ 1,441,667
9	Tanjung Tin Dredging Ltd.	London	1925	£ 371,667
10	Kinta Kellas Tin Dredging Ltd.	London	1926	£ 105,000
11	Kramat Tin Dredging Ltd.	Kuala Lumpur	1926	£ 330,000
12	Kg. Lanjut Tin Dredging Ltd.	Kuala Lumpur	1928	£ 800,000
13	Kuala Kampar Tin Fields Ltd.	Kuala Lumpur	1928	£ 615,000
14	Larut Tin Fields Ltd.	Kuala Lumpur	1928	£ 60,000
15	Lower Perak Tin Dredging Ltd.	Kuala Lumpur	1928	£ 660,000
16	Southern Kinta Consolidated Ltd.	London	1934	£ 769,600
17	Sungei Bidor Tin Dredging Ltd.	Canberra	1937	£ 54,000
18	Austral Amalgamated Tin Ltd.	Taipng	1939	£ 836,896

Source: Collated from Yip Yat Hong (1969). *The Development of the Tin-mining Industry of Malaya*, University of Malaya Press, pp.349-350.

The data presented in Table 3.4.1 require several comments. First, five of these companies also had mining operations in other states in Malaya or in Thailand. Second, the amounts mentioned are confined to issued capital and they exclude reinvested profits. Third, although almost half of these companies were registered in Malaya, they were

<sup>64</sup>Yip Yat Hoong(1969), p.291.



essentially considered foreign, as local ownership only ranged from 4.1% to 38.8%.<sup>65</sup>

The first and third observations suggest that the total investment by foreign tin dredging companies is overstated and the second understated. However, it is likely that between 1900 and 1957 the total investment of foreign dredging companies alone amounted to more than £13 million, excluding other methods of tin extraction as well as investment in the pre-1900 era. These figures give a clear indication of the substantial foreign investment in tin mining in Perak during the colonial period.

Despite the colonial government's concentration on the production and export of tin, it was also concerned to develop plantation agriculture. Foreign capitalists, especially from the West, were encouraged to invest in this sector as well. The incentives were primarily in the form of grants for large tracts of land and special premiums and land rents. In some cases, no premium was demanded, coupled with free land rent for the first few years.<sup>66</sup> It was sugar cultivation that first attracted both local and foreign capitalists in the mid-1870s, primarily to Krian. About a decade later coffee became important and towards the end of the 1890s European planters acquired 35,000 acres for coffee, although only 1,500 acres were cultivated.<sup>67</sup> It was also reported that during the same period 76 estates were in existence covering 71,636 acres, though only a quarter were actively cultivated (see Appendix 1).<sup>68</sup> Within the period of 1900-10 both these crops, however, declined in importance due to the dramatic price fluctuations and competition

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<sup>65</sup>Ibid., p.352, Table V-3.

<sup>66</sup>The following terms were offered to prospective planters: lease or leases in perpetuity for 1,000 acres in one block or in blocks of not less than 500 acres each. No premium charged and a quit rent of 20 cents an acre after 2 years of occupation. If desired, a premium of \$3 an acre and no quit rent (*PGG 1891*, p.419).

<sup>67</sup>Lim Teck Ghee (1976), p.117.

<sup>68</sup>Ownership breakdown is as follows: 33 Europeans, 39 Chinese, 1 Indian, 1 Malay, and 2 mixed ownership. Although the number of European estates is less than the Chinese, in terms of acreage European estates, on average, were almost double the size of Chinese estates, see *PGG 1898*, pp.434-5.

in the world markets. At the point at which colonial agricultural development policy was deemed to have failed, it was rubber, which provided a new impetus and helped counterbalance the concentration on tin production. This development also provided a significant contrast to the tin economy because from the initial stages European capitalists were dominant in this industry. Due to the attractive price of the commodity and easy maintenance of the crop Malay smallholders also took up cultivation and were later joined by the Indians.

The funds for investment in the rubber industry were provided for from different sources for different groups of cultivators. Foreigners were primarily involved in estates.<sup>69</sup> The Chinese and the Indians were involved in estates as well as smallholdings, while the Malays were limited only to smallholdings. Foreign capital investment, mainly from the Europeans, came in primarily via merchant houses that were actively promoting investment in the London capital market.<sup>70</sup> They acted as the link between the investors overseas and the plantations, and often the merchant houses themselves managed the new ventures. Chinese investment was divided into two categories: the first consisted of Chinese capitalists who had accumulated capital from tin mining and reinvested it in the rubber industry<sup>71</sup> and the second comprised smallholders who undertook cultivation either as the main or as a supplementary activity. The Indians who were involved in rubber estates for the most part tended to be associated with *Chettiar* financing activities

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<sup>69</sup>A rubber estate is defined officially in the Rubber Statistics Handbook as 'land, contiguous or non-contiguous aggregating not less than 100 acres in area planted with rubber or on which planting of rubber is permitted, and under a single legal ownership'; similar definition is applicable to smallholdings except that the area is less than 100 acres.

<sup>70</sup>Allen & Donnithorne (1962), p.112; Ramasamy, P. (1994). *Plantation Labour, Unions, Capital, and the State in Peninsular Malaysia*, Kuala Lumpur: Oxford University Press, p.17. Apart from the British, French, Belgian and American capital was also invested in the rubber industry in Malaya.

<sup>71</sup>Lim Chong Yah (1969), p.115.

whose funds originated from India.<sup>72</sup> As for the Malays, their involvement in the subsistence economy left them little or no capital for investment in the rubber industry during the colonial period.<sup>73</sup> While those with capital opened new land, those without would substitute part of their own cultivated area with rubber trees.

As in tin mining, the growth of investment in the rubber industry was phenomenal (see Table 3.4.2). From 1905 to 1909 the total acreage increased almost six-fold. Although no segregation was given for estates and smallholdings, the major acreages belonged to European estates because at this time smallholder rubber cultivation was in its early stages. In terms of bringing an estate to maturity the estimates of the capital costs for this period was between £20 to £60 per acre.<sup>74</sup> Taking it further, in 1921 total estate holdings

**Table 3.4.2 Perak: Rubber acreage, 1905-1909**

Year	1905	1906	1907	1908	1909
Acreage	11,934	29,612	46,167	56,706	68,278

Sources: Chai Hon-Chan (1967). *The Development of British Malaya 1896-1909*, Kuala Lumpur: Oxford University Press, p.155; Lim Teck Ghee (1977). *Peasants and their Agricultural Economy in Colonial Malaya 1874-1941*, Kuala Lumpur: Oxford University Press, p.95.

in Perak were 231,893 acres<sup>75</sup> and the estimated capital expenditure then was £70 to £100 per acre.<sup>76</sup> Using these estimates, the capital investment in 1909 would be between £1.4

<sup>72</sup>Tan Tat Wai (1982). *Income Distribution and Determination in West Malaysia*, Kuala Lumpur: Oxford University Press, pp.270-1, 280; Lim Chong Yah (1969), p.112. Chettiar financing was known to have existed in the pre-colonial period as well.

<sup>73</sup>Lim Chong Yah (1969), p.115.

<sup>74</sup>Allen & Donnithorne (1962), p.111 estimated the cost to be £21 to £25 per acre depending on location; Drabble, J. H., 'The Plantation Rubber Industry in Malaya up to 1922', *JMBRAS*, 1967, p.54 estimated £20 per acre; Drabble, J. H. (1973). *Rubber in Malaya, 1876-1922: The Genesis of the Industry*, Kuala Lumpur: Oxford University Press, pp.98-100 revised his estimates to £60 per acre; Thoburn, J. T. (1977). *Primary Commodity Exports and Economic Development: Theory, Evidence and a Study of Malaysia*, London: John Wiley & Sons, pp.63-4 also presented the same issue in the context of Malaya for the period 1905-22.

<sup>75</sup>September 1921 Census of Rubber Areas, FMS cited in Lim Teck Ghee (1977), p.175. No breakdown on ownership is given.

<sup>76</sup>Drabble (1973), p.99.

million and £4.1 million; and in 1921 between £11.5 million and £16.4 million.<sup>77</sup> However, this simple assumption also carries a drawback in that when the rubber price was high such as in 1910 when it fetched £1.05 per pound, it is likely that the opening of new land by estates was financed by reinvestment of profits rather than by new inflows of funds from abroad. At other times when prices were lower it is probable that only part of the investment was met by foreign investment. On the other hand, it is also crucial to remember that the contribution by smallholders in the rubber industry was high. By 1921, for example, smallholders represented 48% of the total rubber cultivated area of 447,186 acres<sup>78</sup> in Perak. These were local cultivators whose capital expenditure per acre would not be as high as estate operators because title-holders or family members generally provided the labour. Nevertheless, their investment inputs should not be underestimated. In addition, at a macro-level, Mills estimated total foreign investment in the Malayan rubber industry towards the end of 1930 to be between US\$248 and US\$277 million.<sup>79</sup> The Rubber Growers Association, whose members comprised mainly British companies and agency houses, also reported that the total book value of issued capital in 1941 was almost £65 million or about US\$260 million.<sup>80</sup> Towards the end of the colonial period in Malaya, Europeans controlled 83% of the estates followed by Chinese 14% and Indians 3%.<sup>81</sup>

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<sup>77</sup>In arriving at the capital expenditure figures for 1921 the acreage for 1909 has been deducted since these estates had reached maturity.

<sup>78</sup>September 1921 Census of Rubber Areas, FMS cited in Lim Teck Ghee (1977), p.175.

<sup>79</sup>Mills (1958), p.28.

<sup>80</sup>Stahl (1951), p.106 cited in Parmer (1960), p.9.

<sup>81</sup>Puthucheary (1960), pp.26-8.

Although emphasis had been given to tin mining and agriculture especially rubber, there were also other crops cultivated in the plantation sector such as oil palm, which was introduced in the late 1910s. However, it was not of major economic importance then. Other industries such as banking and finance, shipping, insurance, land transport, communications, general contracting, and retail businesses also made a contribution to the development of the economy but primarily based on the two commodities, tin and rubber. It is difficult to quantify these investments, specifically in Perak. For a general estimate of the total outstanding business investments across Malaya made by the West, Callis (1942:56) estimated it to be US\$194 million in 1914, which increased to US\$447 million in 1930, but reduced to US\$372 million in 1937.<sup>82</sup> It was also estimated that about two-thirds of the 1937 investment figure was in rubber plantations and one-sixth in tin mining.

The presence of the colonial administration in Perak had served substantially in expanding the export economy.<sup>83</sup> As for the private sector, both local and foreign, the accumulated wealth and reinvested profits from commerce had provided the initial capital for investments.<sup>84</sup> Later, corporate flotation overseas, especially in tin and rubber, became important. This period also saw the growth of both secondary and tertiary industries in the state but this was limited to the major export-related industries. Divisions in the economy also accompanied these developments: foreigners dominated

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<sup>82</sup>Cited in Allen & Donnithorne (1962), p.290.

On the other hand, the Chinese gross investment in Malaya in 1937 was estimated to be £50 million, see Quah Chooi Hon, 'The Chinese in Malaya (1786-1941)' in *Journal of the Historical Society*, Vol. 4, 1965/66, Kuala Lumpur: University of Malaya, pp.74-82.

<sup>83</sup>This assertion is put forward as tin and other products, except rubber were already export items prior to colonial administration in Perak.

<sup>84</sup>Thoburn (1977), p.59; Jomo (1988), p.151; Drable (2000), p.54.

much of the international trade whilst the Chinese were dominant in the local commodity circuits. The Malays and Indians were not dominant due to their inability to raise large amounts of capital. The extent of inward investment brought about by both local and foreign capitalists was enormous during the colonial period, and it was private enterprises that became the main engine of economic growth and development, integrating Perak inextricably into the global economy.

### **3.5 Population and the influx of foreign labour**

The Industrial Revolution in the 18<sup>th</sup> century had generated the need for raw materials and the mineral wealth of Perak, as one of the reasons for British intervention in the state, has been mentioned. However, sufficient labour was essential to exploit these natural resources, but it was usually in short supply. Colonial powers would generally turn to their other colonies or to other territories to meet this production factor shortfall. At the beginning of the British administration, the population of Perak was about 70,000 and with the vast size of the state, the population was deemed grossly insufficient for economic development. In meeting these challenges, the growth of population became an important issue to be dealt with if transformation of the state from a traditional to a modern state was to be achieved. This section, therefore, briefly examines demographic growth and issues relating to it.

From the census first carried out in 1879 to the independence of Malaya in 1957, a period of 78 years, the population of Perak multiplied more than 14 times (see Table 3.5.1). Similar to other states in Malaya the main factor in this rapid growth in Perak was not

due to a natural increase but through immigration, particularly of Chinese and Indians.<sup>85</sup>

The annual growth rate of the Malay population between 1891 and 1957 was 2.3%, the Chinese 2.7%, and the Indian a substantial growth of 3.8%. By 1901, the Chinese population had gained numerical superiority over the Malays. However, immigration was also an important source of Malay increase in Perak due mainly to the availability of land and incentives offered by the colonial government to boost agricultural development activities.<sup>86</sup> The majority of the 'foreign' Malays came unassisted from different parts

**Table 3.5.1 Perak: Population growth, 1879-1957, selected years**

Year	Malays	Chinese	Indians	Others	Total
1879	n.a	n.a	n.a	n.a	80,984
1891	106,393	95,227	15,143	1,056	217,869
1901	145,034	151,192	35,037	2,515	333,778
1911	203,791	219,435	74,771	4,362	502,359
1921	244,270	227,602	134,215	5,082	611,169
1931	280,247	332,584	163,940	8,889	785,660
1947	360,631	444,509	140,176	8,622	953,938
1957	484,530	539,334	178,623	18,959	1,221,446

Sources: Del Tufo (1949). *Malaya: A Report on the 1947 Census of Population*, Government of the Federation of Malaya, Appendix C, p.585; Department of Statistics Malaysia (1959). *Population Census 1957: State of Perak*, Report No.8, p.1.

Notes: Others include Siamese, Japanese, Singhalese, Arabs, and Asiatic Jews.

n.a – not available

of the neighbouring Netherlands East Indies (later Indonesia) and established settlements throughout Perak, mainly based on family and kin ties.<sup>87</sup> The Javanese settled mainly in the Lower Perak and Krian areas, the Banjarese in Selama and Lower Perak, Sumatrans

<sup>85</sup>The popularity of Perak being an important destination for foreigners during the last two decades of the 19<sup>th</sup> century can be seen from their arrivals and departures as presented in Appendix 2.

<sup>86</sup>For detailed information on immigration in the Federated Malay States during the early colonial period, see Sadka (1968), pp.324-331; for the whole colonial period covering Malaya, see Lim Chong Yah (1969), Chapter 7; and covering both periods, see Tengku Shamsul Baharin (1964). 'The Indonesians in Malaya', M.A. Thesis, United Kingdom: University of Sheffield.

<sup>87</sup>The in-migration of Malays from various parts of the Netherlands Indies to Perak pre-dated the colonial period, see Othman Mohd Yatim, 'Orang-Orang Melayu di Jajahan Dindings (Perak): Satu tinjauan tentang asal-usul dan corak penghidupan mereka' in *Malaysia in History*, Vol. 20, No.1, June 1977, pp.8-20; also Jackson (1972), pp.79, 90.

in Kinta, and the Pattanis in Ulu Krian and Ulu Perak.<sup>88</sup> Official records from 1888 to 1902 show that the net in-migration of 'foreign' Malays totalled 12,400 (see Appendix 3).<sup>89</sup> With regard to migration within the Malayan Peninsula, most of the Malays came from Kedah and Perlis to settle in the rice cultivation areas of Krian, Kurau and Selama while the Kelantanese settled in almost all districts in Perak.<sup>90</sup> These immigrants from the 'Malay world' basically shared a common religion and way of life, an agricultural economy and political culture in the sense of having monarchical structures, and, to a certain extent a common language. They therefore eventually became assimilated within the local environment and later became identified as Malays without the distinction between 'local' and 'foreign'.

During the early years of the British administration when tin production was actively pursued, the Malays were incapable of meeting the shortage of labour. The local Malay population was then small and when Malay immigrants began increasing, they too were not involved in the tin mining industry.<sup>91</sup> The working conditions in the industry were unattractive to the Malays, and the colonial government did not encourage their participation. The statistics for 1921 revealed that 57.3% of the Perak population were active in the agricultural sector, about three-quarters comprising Malays.<sup>92</sup> Almost three decades later the population census of 1947 also showed that the concentration in this

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<sup>88</sup>Sadka (1968), p.328.

<sup>89</sup>However, the actual number is definitely much higher as the figure above relates to those immigrants coming in to Perak through the ports of Teluk Anson and Port Weld only; see also fn.91 below.

<sup>90</sup>Ibid.

<sup>91</sup>*Reports Encouraging the Cultivation of Rice* (1892), p.4 cited in Lim Teck Ghee (1976), p.71.

In 1891 alone an estimated 2,743 immigrants entered Perak all of whom were foreign Malays except 152.

<sup>92</sup>Calculated from Nathan, J. E. (comp.) (1922). *The Census of British Malaya 1921*, London: The Crown Agent for the Colonies, Table XXXII.



sector remained about the same at 58.3%.<sup>93</sup> By 1957, agriculture continued to be the primary occupation of the Malays with the main concentration found in the rice and rubber cultivation sub-sectors.<sup>94</sup> But compared with the 1947 census, it was also during this period that the Malays were gradually expanding their involvement in the non-traditional sectors of the economy, especially in building and construction, commerce, and transport and communication. Most apparent was the increasing Malay involvement in the public service, especially in security and defence.

The migration of Chinese to Perak was already evident before the arrival of the British, primarily due to the mining industry, though the intensity was very much subject to the demand and price of tin.<sup>95</sup> After intervention, the flow of Chinese immigrants was increased as a result of the British policy to accelerate economic growth. Table 3.5.2 shows the numbers of Chinese and Indian immigrants by year of first arrival to Perak.<sup>96</sup> Although by 1947, the total of Chinese immigrants in Perak was 153,361 it is suspected that this is substantially below the actual figure. Firstly, during the height of tin production in the pre-1900 period Larut alone was reported to have had already some 40,000<sup>97</sup> Chinese immigrants. Secondly, it excluded immigrants who had arrived in other states and later moved to Perak. The flow of Chinese immigrants also corresponded closely to the economic demands of the industry.

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<sup>93</sup>Calculated from Del Tufo, M. V. (1949). *Malaya: A report on the 1947 Census of Population*, Table 79. Population Census of 1957 is also available but direct comparison is not possible due to category changes made to the sectors.

<sup>94</sup>For a detailed breakdown according to industry, see Department of Statistics, Malaysia (1959b). *Population Census 1957, Report No.8, State of Perak*, pp.58-69.

<sup>95</sup>For the development during most of the colonial period, see Quah Chooi Hon (1965/66), pp.74-82.

<sup>96</sup>Immigration of Chinese to Malaya was estimated to be at least 5 million during the 19<sup>th</sup> century and a further 12 million between 1900-1940 of which the majority had returned to China (Ibid., p.76); the scale of Chinese arrivals and departures into Perak between 1888 and 1902 can also be seen in Appendix 3.

<sup>97</sup>Gullick (1987), p.367.

**Table 3.5.2 Perak: Chinese and Indian immigrants by year of first arrival**

Year	Chinese	Indians
1900 or earlier	3,649	550
1901-1910	11,939	3,175
1911-1920	28,563	12,208
1921-1930	54,044	20,519
1931-1940	48,439	21,261
1941-1947	3,221	2,920
Not known	3,506	1,928
Total	153,361	62,561

Source: Collated from Del Tufo (1949), *Malaya: A Report on the 1947 Census of Population*, Government of the Federation of Malaya, p.346, Table 51.

The involvement of the Chinese in the Perak economy was relatively diversified. The majority of them were active in commerce especially shopkeeping and labouring. Changes that took place within the colonial period saw their gradual decline in agriculture and tin mining and their increase in the manufacturing, commerce, transport and communication, and service sub-sectors. By the end of the colonial period, the Chinese were the dominant players in the economy leaving the Malays and Indians behind.

The growth of the Indian population in Perak was closely associated with the development of the rubber plantation industry. The Indians mainly comprised labourers brought into Perak to work in the rubber estates in rural areas as well as in the Public Works Department.<sup>98</sup> The dominance of Indian immigrants in the rubber estate sector is shown in Table 3.5.3. While the immigration of Chinese was a response within their community to the vicissitudes of the demand for labour, the immigration of Indians was based more on an inter-government agreement. Government subsidies were provided to

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<sup>98</sup>Indian labour participation in the tin mining sector was small. For example, in 1906 there were only about 7,000 of them working in tin mines throughout the state (*PGG 1907*, p.10).

facilitate Indian immigration.<sup>99</sup> From a total of 15,143 Indians in 1891, the population had grown to 178,623 in 1957 (see Table 3.5.1). The most remarkable increase was in

**Table 3.5.3 Perak: Estate population by race, selected years**

Year	Malay	Chinese	Indians	Others	Total
1911	12,732	16,403	33,122	n.a	n.a
1921	5,401	6,648	75,840	1,030	88,919
1931	2,402	7,171	75,362	1,019	85,954
1947	5,999	12,956	60,979	674	80,608

Sources: Collated from Nathan (comp.) (1922). *The Census of British Malaya 1921*, London: The Crown Agent for the Colonies, Table LVIII; Vlieland (comp.) (1932). *British Malaya: A Report on the 1931 Census*, London, Table 22; Del Tufo (1949). *Malaya: A Report on the 1947 Census of Population*, Government of the Federation of Malaya, Table 111.

1921 when the population almost doubled compared to the previous decade. This corresponded well with the expansion of rubber estates; in 1909, there was 68,278<sup>100</sup> acres of land planted with rubber and in 1934 estates covered 553,040 acres.<sup>101</sup> This is despite the fact that war took place between these years and large numbers of immigrant labourers were thrown out of employment. Immediately afterwards, the rubber rush began again and the Indian population grew rapidly. Another reason for the increase in the Indian population was the practice of estate employers replacing Chinese labourers with Indians to keep production costs down, as the latter were cheaper to employ. By 1938, the inter-government immigration arrangement ceased officially, which saw the decline in the recruitment of Indian labourers from southern India.

Overall immigration and emigration in Perak were sensitive to economic conditions and consequently the immigration statistics reflected directly the price of tin and rubber. The

<sup>99</sup>Lim Teck Ghee (1977), p.15.

<sup>100</sup>Chai Hon Chan (1967), p.155.

<sup>101</sup>Grist, D. H. (1936). *An Outline of Malayan Agriculture*, Department of Agriculture, Straits Settlements and Federated Malay States, p.74.

large number of immigrants who willingly came to Perak provides an indication of the economic prosperity of the state as well as the outcome of the liberal policies adopted by the colonial government. By the end of British administration, as population growth kept rising, a rapid rise in production was needed and new employment opportunities were created to absorb the increasing labour force. The pre-colonial, unspecialised, largely subsistence-based mode of production had changed to a market system based on wage labour and capital. One of the important consequences of colonial economic policy was the large foreign immigration to the state and the establishment of a multi-ethnic society. The phenomenal growth in population was also closely linked to the colonial land policy to which we now turn.

### **3.6 Land policy during the colonial period**

Under British administration, the traditional land use and tenure system had to change to suit the demands and requirements of the emerging market economy. The use of land as collateral that had emerged during the late pre-colonial period inevitably became more prominent during the colonial period. During the early stages of British administration, the tin mining industry was already capable of high production and provided revenues to enable the state to finance its administrative structure and economic development. The abundance of land in relation to demand provided the British with extremely favourable conditions for the introduction of a new land policy. This section, therefore, examines the changes that took place among the peasantry with the introduction of the new land policy.

The colonial land policy<sup>102</sup> was derived from the Australian Torrens system. In its formation no attempt, however, was made to include any of the Malay customary land rules within the new system as these were viewed as unsuitable for the operation of a capitalist economy. As such, the new system undermined the position of the Malays and the disagreement that arose 'must have symbolised the struggle between British civilisation and Oriental anarchy'.<sup>103</sup> Of utmost importance was the change in the concept of land as a factor of production to a commercial commodity available for exchange or sale.

Pre-colonial land rights were based on the premise of land worked on and there was no limit to the size of the cultivated area. Instead, in the colonial period all parcels of land were alienated with specific ownership allotted to them either to an individual or group of individuals or enterprises, particularly to those involved in mining and rubber growing. The scale at which land had been applied for and alienated was remarkable (see Table 3.6.1). The balance was designated as state land. Under this new land policy, the Malay peasants could not cultivate any vacant land as before and those without land ownership were either forced to rent from others or seek employment elsewhere as wagedworkers.

This changing structure of land ownership therefore resulted in limitations on land availability and competition for land among the peasants. While foreign capitalists were

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<sup>102</sup>For a detailed examination of the development of land policy specifically for Perak during the early colonial period, see Lim Teck Ghee (1976); and for all Malay States, see Wong (1975); also Wilson, H. E., 'The Evolution of Land Administration in the Malay States: A Survey of British-Inspired Changes' in *JMBRAS*, 48(1), 1975, pp.120-133.

<sup>103</sup>*Ibid.*, p.156.

able to obtain state land for their large economic ventures<sup>104</sup> and the immigrant settlers were offered land by the government administration,<sup>105</sup> the local inhabitants could only acquire land either through purchase or inheritance. In any case, acquisitions were almost certainly made by members of the Malay upper class as purchasers. In other cases, they were the result of land foreclosed by creditors for loans not paid against the land used as collateral.

**Table 3.6.1 Perak: Land alienated for mining and agriculture 1889-1902**

Year	Mining		Agriculture	
	No. of titles	Acres	No. of titles	Acres
1889	1,090	11,995	32,925	145,674
1890	1,322	21,958	35,905	152,192
1891	1,687	28,525	39,993	140,555
1892	1,842	32,069	41,222	154,097
1893	2,073	36,262	40,795	138,962
1894	3,356	39,901	47,358	157,209
1895	2,864	50,912	49,787	180,958
1896	3,750	67,553	52,652	208,254
1897	4,390	84,301	54,860	231,691
1898	4,931	91,043	55,925	223,217
1899	5,603	100,894	59,363	244,215
1900	5,668	108,824	60,966	257,802
1901	5,888	117,330	49,518	269,333
1902	6,179	122,514	41,175	211,086

Sources: *PGG 1890*, p.480; *PGG 1891*, p.342; *PGG 1892*, p.295; *PGG 1893*, p.431; *PGG 1894*, p.333; *PGG 1895*, p.385; *PGG 1896*, p.506; *PGG 1897*, p.642; *PGG 1898*, p.432; *PGG 1899*, App. C, p.39; *PGG 1900*, App. C, p.35; *PGG 1901*, App. C, p.39; *PGG 1902*, App. C, p.27; *PGG 1903*, App. C, p.28.

The economic boom, especially due to the development of rubber cultivation during the early 20<sup>th</sup> century, created a demand for land at an unprecedented level.<sup>106</sup> Although a proportion of purchasers were genuine rubber growers, a considerable number were acquiring land for speculative purposes. Malay peasants, some of them for reasons of

<sup>104</sup>In 1891 alone 22 applications for 36,000 acres, mostly from European planters, were submitted to the state government (*PGG 1892*, p.295).

<sup>105</sup>For example, from 1886 to 1891 a total of 4,932 acres comprising 1,651 lots were awarded to Malay immigrants in government land schemes at Lower Perak to promote agriculture, particularly rice cultivation (*PGG 1892*, p.724); similarly in Batang Padang a total of 700 acres were granted to foreign Malays to cultivate coffee and pepper (*Ibid.*, p.297).

<sup>106</sup>Lim Teck Ghee (1977), pp.114-5.

hardship, were also influenced materially by the new market economy and therefore were willing to dispose of their holdings. The scale of land disposal became of considerable concern to the British and therefore the Malay Reservation Act 1913<sup>107</sup> was enacted to protect Malay landholdings.<sup>108</sup> Despite its noble intentions, this Act too had its drawbacks. The objective of preserving Malay landholding was a success but within Malay society itself this Act inadvertently helped to establish a trend of 'one's possession becomes someone's dispossession' and the emergence of land concentration and landlordism among wealthy Malays. The Act too was blamed for the depreciation of land values under Malay reservations as it commanded low security value for credit purposes. The Act also stipulated that land transfers and ownership could only occur within the Malay community, which in turn limited its potential value in the market. Furthermore, the landed property market among the Malays was not as vibrant because of their lower economic standing. On the other hand, the non-Malays were not directly affected, except for the restrictions from purchasing Malay reserved land, and were benefiting from the high value for their landholdings either through sales or for credit collateral purposes.

Officially, the colonial land policy was supposed to stabilise the indigenous population by changing them from shifting to permanent cultivators.<sup>109</sup> By doing so, the population could be better controlled and administered. With the end of shifting cultivation, this policy also resulted in the majority of the Malay peasants becoming illegal cultivators,<sup>110</sup>

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<sup>107</sup>For development of the Malay Reservation Act 1913, see Ibid., pp. 106-116.

<sup>108</sup>As an example, the net sales transactions of Malay landholdings to non-Malays in Perak in 1911 was 541 holdings, 741 holdings in 1912, and this further escalated to 1,337 holdings in 1913, see Jagjit Singh Sidhu (1980), p.164.

<sup>109</sup>Gullick (1992), p.197; Jomo (1988), p.86; Official state order to discourage *ladang* (shifting) cultivation was passed on January 16, 1890, see Order in Council No. 6 of 1890 (*PGG 1890*, Vol. 3).

<sup>110</sup>Jomo (1988), p.86.

largely because they did not possess land and were too poor to purchase it. The new land policy too created land shortages because large areas were earmarked and developed into either mining zones or estates, which gradually caused the decline of available land both in terms of quantity and quality.<sup>111</sup> Under the new policy, the peasants were left with nothing except those lands that were already in their possession. This created land hunger among them. Furthermore, the infrastructural and financial support was not sufficient to attract Malay peasants towards sedentary agricultural activities. However, since options were not available, the majority of them had to turn to their traditional occupation of rice cultivation whilst looking out for other better economic opportunities.<sup>112</sup> This is evident from the active involvement of Malay peasants in cash crop production, particularly in the rubber smallholding sector.

Other consequences of the colonial land tenure system were the growth of joint ownership as well as the subdivision and fragmentation of land.<sup>113</sup> While joint ownership did not create difficulties for economic production unless joint owners disagreed among themselves, subdivision and fragmentation could result in uneconomic production practices themselves. The subdivision of land eventually resulted in parcels of land that were too small to work on and economies of scale were lost.<sup>114</sup> Fragmentation also meant a farmer would be cultivating small and scattered plots, resulting in an increase in production costs.<sup>115</sup>

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<sup>111</sup>Ibid., p.85-6.

<sup>112</sup>Lim Teck Ghee (1976), p.135.

<sup>113</sup>For detailed discussion about these three consequences in relation to Malaya, see Jomo (1988), pp.87-108.

<sup>114</sup>Abdul Aziz, Ungku (1958). 'Land Disintegration and Land Policy in Malaya' in *Malayan Economic Review*, 3(1), p.24.

<sup>115</sup>Jomo (1988), p.91.



In the economic development of Perak, the colonial government's contribution to improving the socio-economic standing of Malay cultivators was delayed, although not totally absent, because during the early colonial period attention was heavily concentrated on the economic exploitation of tin. The government did, however, embark on initiatives to provide rural infrastructural facilities such as the Krian Irrigation Scheme<sup>116</sup> and other smaller schemes and settlements to assist peasants in rice cultivation activities from the end of the 19<sup>th</sup> century. These initiatives were also in line with the dualistic agricultural policy, which distinguished peasant food production, mainly rice, for local consumption from capitalist cash crop production for export. In both instances where land was the primary factor of production, glaring differences existed as to the measures taken and practices adopted in the pursuit of colonial policy objectives. Cash crop production, which mainly comprised estates, was provided with better access, location, soil quality, and infrastructure such as roads and railways.<sup>117</sup> The provision of cheap land concessions to capitalists and low agricultural land taxation for immigrants to settle in Perak was not made available to the peasants. Heavier land tax was in fact imposed on the peasants as compared to the estates.<sup>118</sup> Colonial land policy therefore placed Malay peasants in a very disadvantaged position compared to capitalists and immigrants.<sup>119</sup>

In sum, the introduction of the new land policy in Perak was part of the colonial administration's support for a market economy and demonstrated the important

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<sup>116</sup>For early reports on the development of this scheme, see Murray, A. (1898). *Report on the Krian Irrigation Scheme, Perak, Malay Peninsula*, Taiping: Perak Government Printing Office; and O'Shaughnessy, R. G. (1898). *Final report on the Krian Irrigation Scheme, Perak, Malay Peninsula*, Taiping: Perak Government Printing Office.

<sup>117</sup>Lim Teck Ghee (1976), p.157.

<sup>118</sup>*Ibid.*, p.128.

<sup>119</sup>In general, 'immigrants' refer to the Chinese and Indians. Malay immigrants were assimilated into the Malay indigenous community.

intervention of the state in directing and regulating economic development. The pre-colonial Malay land system did not encourage progressive wealth accumulation. However, the colonial Malay Reservation Act, in support of a policy to encourage the capitalist economy, further marginalized the Malay peasants, and, although colonial land policy was deemed 'liberal' and an incisive instrument for the development of Perak as a whole, it worked to the detriment of the indigenous people. Those who gained from such policies were those capitalists and immigrants who had the capacity to invest and profit from them.

### **3.7 Role of the state in economic exploitation**

The establishment of British administration in Perak saw a fundamental change in the role of the state in relation to the economy. In the pre-colonial period, administration was based on precedents and laws closely related to Islam, and customary practices, and was decentralised in character. This was replaced by a largely centralised government headed by a British Resident.

In promoting the market economy as its main objective, the centralisation of the state administration was crucial for the control of all policies undertaken during the colonial period. These policies and their implementation, based on Western concepts and practices, were directed to the preferential treatment of foreign capitalists rather than smallholders. While the British were fully committed to the economic exploitation of the state, they neglected and marginalized the peasantry who were mainly restricted to the production of cheap rice. The absence of provisions to assist smallholders in holding on

to their land further aggravated the situation. The growth in the native agricultural sector, therefore, at least in the first two decades of colonial rule, was barely the product of colonial policy but the 'spontaneous response to the growing demand for food products'.<sup>120</sup> A more positive policy towards the native agricultural sector was only adopted from the late 1890s after rice imports had caused a severe drain on state revenue.<sup>121</sup> In the rubber industry, policies were also undertaken to inhibit the involvement of peasants, but these attempts, especially the provisions disallowing rubber planting among peasants, failed due to the lucrative income from rubber.<sup>122</sup> In further strengthening and expediting economic exploitation, the state also served as a provider of capital for agricultural development. The state's Planters Loan Fund, for example, had, during the first decade of the 1900s, extended loans for the amounts of \$36,000 and \$75,000 to Kuala Kangsar Plantations and Sengali Estate Kinta respectively.<sup>123</sup> The peasantry, on the other hand, were only offered, in most cases, not more than \$100 each under the Agricultural Loan Fund, which saw 454 loans being disbursed during the period 1909 to 1911.<sup>124</sup> While foreign capitalists had access to substantial state loans, the local population had only limited access<sup>125</sup> and, therefore, were not involved in any medium- or large-scale agricultural projects.

No capitalist economy is able to prosper without an adequate labour supply. In this context, the colonial state encouraged immigration primarily to serve the tin mining and

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<sup>120</sup>Lim Teck Ghee (1976), p.134.

<sup>121</sup>See Chapter 4 for the development of the rice industry during the colonial period.

<sup>122</sup>See Chapter 5 for the economic exploitation of tin and rubber during the colonial period.

<sup>123</sup>Lim Teck Ghee (1977), p.96, en.11.

<sup>124</sup>Ibid., p.86; see also Chai Hon-Chan (1967), pp.161-2.

<sup>125</sup>Lim Teck Ghee (1976), pp.64, 76, 94-5.

rubber plantation sectors, but also to support the public works sector. The labour policy too resulted in ethnic segregation and foreign dominance in relation to the economy of the state as a whole. In addition, while there were Chinese and to a certain extent Indian business activities, they were overshadowed by the much larger foreign companies, mainly British, which had access to considerable capital, political influence, and advanced technology. The role undertaken by the state in initiating economic development was significant, although it was private enterprise that had a more dominant role in realising it.

The colonial policy of providing infrastructural facilities further enhanced the economic exploitation of the state.<sup>126</sup> The entire railway system was fully financed by the state. The first railway line in Malaya was built in Perak, linking Taiping and Port Weld, to facilitate the transportation of tin more efficiently for export. This network was then expanded to cover the whole state from north to south linking all the neighbouring states. Early expansion was carried out westwards to link Ipoh to Telok Anson, an important port during the period; and the rail system that ran in parallel to the road system was designed to pass through key mining locations. As early as 1900 there were already 114 miles of railways and over 586 miles of cart roads in Perak.<sup>127</sup> The development of rubber was also concentrated close to these transport facilities.

The role of the state therefore focussed on policies that facilitated the exploitation of tin and rubber. However, this was not a feasible long-term strategy because it resulted in the

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<sup>126</sup>See fn. 46.

<sup>127</sup>Yip Yat Hoong (1969), p.115.

creation of an extremely trade-dependent economy based overwhelmingly on two main export commodities. Nevertheless, an ordered government and unified administration were established and they promoted rapid economic progress which otherwise would have been slow and hesitating.

### **3.8 Summary and conclusion**

This chapter has delineated and highlighted those aspects of Perak's colonial history which bear directly on the problems that the state faced in the post-colonial period. The transformation of the political and economic structures that occurred during the colonial period manifested the role played by the state in administering and promoting economic development, and the consequent changes in the character and structure of Perak society.

At least three major developments took place in Perak during British colonialism. The first was the clear distinction and separation between the ruler (Sultan), who became essentially a symbolic figure head, and the government in the state administration in contrast to the pre-colonial period when both were one and the same; second, strong emphasis was given to the promotion of the market-driven economy from the previous feudal system; and third, the introduction of the colonial land system that recognised land as a commodity. Other subsequent changes that took place were either directly or indirectly associated with these three major developments.

The primary colonial objective in Perak was the exploitation of tin and rubber for profit, which were the major commodities that supported the expansion of the export economy.

The previously limited exchange characteristics of the state were, therefore, changed to a full-blown exchange economy. Accompanying it was the development of the secondary and tertiary industries that were absent during the pre-colonial period. The land policy introduced at the beginning of British colonialism further supported the expansion of the market economy. At the same time, the expansion of the export economy too resulted in an increase in trade, both in terms of scale and diversity. The rise in population via immigration became inevitable to support the human resource requirement of the state. The expansion in the economy saw state revenues increase significantly from \$226,233 in 1875 to \$36,181,719 in 1919, an increase of about 160-fold within a 35-year period.<sup>128</sup>

During the colonial period, a significant flow of capital, both foreign and local, was invested in Perak, particularly in the tin and plantation industries. To further facilitate economic expansion, infrastructural development was also carried out. However, colonial infrastructural and other developments in Perak were justified only insofar as they facilitated the economic process. The total investment in both the administration and infrastructure was relatively small compared to the profits reaped and repatriated, particularly from 1900 to 1942.

An important development in Perak during the British colonialism period was the emergence of private enterprises that served as the main engines of growth and accelerated the expansion of the economy. At the end of British colonialism in 1957 the natural resources that had played such an important role in Perak's position in the world economy began to lose their status. Reserves of tin were diminishing and both tin and

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<sup>128</sup>See Appendix 4.

rubber faced serious competition in the global market in terms of price and substitutes. Dependence on these two primary export commodities, with only limited industrial capacity and very little other economic activity, created problems towards the end of the colonial period in terms of economic adaptability, ethnic segregation and regional inequalities, and posed particular problems for Perak, as a state, closely integrated into the world markets and heavily dependent on the primary commodities of tin and rubber.

In sum, the role of the British colonial state in Perak for more than eight decades was inclined towards facilitating the exploitation of her natural resources. However, in doing so, the British too had created the conditions for a viable market economy to prosper, which included new administrative structures, modern infrastructure, and the necessary factors of production.

## CHAPTER 4

### THE STRATEGIC ROLE OF RICE IN AN EXPANDING CAPITALIST ECONOMY DURING BRITISH RULE

#### 4.1 Introduction

The notion of colonialism in itself requires that in the end it should benefit the colonial masters themselves. In the case of Perak, the *modus operandi* was manifested coherently through the agricultural policy. As Lim has stated "the transformation of Perak from a Malay *negeri* to a British protectorate responding to the demands of Britain's political and economic interest can be seen clearly in the agricultural development in Perak".<sup>1</sup> Although the dual agricultural policy emphasised the importance of both export-oriented as well as native agricultural production, the efforts expended on both were imbalanced with export-oriented agricultural production receiving much of the attention.

Traditionally subsistence producers, the Malays were very accustomed to rice agriculture. The ability to adapt well to the constraints placed upon them by the surrounding environment generated a peasantry that was 'quite efficient in terms of ecological circumstances'<sup>2</sup> in rice production.<sup>3</sup> During the colonial period, the British recognition of this expertise was probably one reason why the Malays were directed only towards the rice sector when the colonial administration wanted to promote its basic food self-sufficiency policy. The Chinese and Indian immigrants were encouraged to do the same but without any pressure placed upon them. The

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<sup>1</sup>Lim Teck Ghee (1976), p.ix.

<sup>2</sup>Jomo (1988), p.55.

<sup>3</sup>The methods of rice cultivation, however, were also influenced by the cultural origin of the cultivator who, for the most part, consisted of immigrants from the Malay Archipelago, see Jackson (1972), pp.76-96.



restrictions and policies introduced in general presented a blow to the peasantry rather than enriching it. The overall result too was not a success. From 1876 until the end of the first decade of the twentieth century rice imports remained between 22% to 27% of the total import trade of Perak.<sup>4</sup> While this represented a narrow margin of fluctuation, in terms of volume and monetary value it was relatively substantial, as total import trade had seen a tremendous increase within the period.<sup>5</sup> This significant increase in rice imports too had raised concerns for the colonial government to institute new policies and strategies.

This chapter therefore, focuses on the strategic role of rice during the colonial period with emphasis on the state's requirement for rice, policies and legislation enacted for it, the infrastructural development for promoting rice production, and the role of the state in rice agriculture. Examining these issues helps to understand the economic transformation that took place as a direct result of the role played by the state in rice production, the success of the policies implemented and differential ethnic participation in state economic activities.

## **4.2 The increase in population and the need for rice**

In Section 3.5, we have seen that population growth in Perak during the colonial period had been rapid. Population had grown from about 81,000 in 1879 to over 1.2 million people in 1957 and in a little over two decades from 1879 to the turn of the century had increased by more than a quarter of a million.<sup>6</sup> The major part of this increase was the result of foreign immigration to service the expanding tin mining

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<sup>4</sup>See Section 4.2

<sup>5</sup>See Appendix 5.

<sup>6</sup>See Table 3.5.1 in Section 3.5

industry as well as rubber estates and public works. To a much lesser extent the immigrants were also expected to contribute to the expanding food sectors such as rice and coconut agriculture. In terms of daily diet, the indigenous Malays and the Chinese and Indian immigrants had one element in common: all three ethnic groups had rice as their staple food, which eventually put pressure on the supply of and demand for the commodity. Rice production in the state did not increase in tandem with the rapid increase in population.

The cultivation of rice was promoted due to this increase in population and at the same time such official encouragement also sought to improve the income of the peasants. Sullivan states that in the late 19<sup>th</sup> century rice production in Perak was sufficient to cater for domestic demand.<sup>7</sup> This, however, could only be true if it referred to the indigenous local population, as rice production was largely to meet subsistence needs. As a state, the rice supply was inadequate. The corresponding escalation in rice consumption due to the increasing population had to be met by importing cheap rice from Siam (now Thailand) and Burma (now Myanmar). In the new colonial capitalist economy the rapidly growing population in the non-agricultural sector had to be fed. As early as 1876 Perak imported rice worth \$180,620 from a total import trade of \$831,375.<sup>8</sup> Almost two decades later in 1895 rice imports stood at \$2,609,303 out of a total import trade of \$9,581,372.<sup>9</sup> Over this period rice imports had increased by about 5% but within a much larger volume of total imports. The dependence on imported rice therefore became apparent and it worsened, as local production could not cope with the increase in demand. Table 4.2.1 below confirms

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<sup>7</sup>Sullivan, P. (1982). 'Social Relations of Dependence in a Malay State: Nineteenth Century Perak' in *JMBRAS*, Monograph No.10, p.23.

<sup>8</sup>*PGG 1889*, p.395; *PGG 1897*, Appendix M, p.663.

<sup>9</sup>*PGG 1895*, Appendix B, p.503; *PGG 1897*, Appendix M, p.663.

the condition the state was in with regard to its dependence on imported rice. Over the 25-year period from 1876 to 1900 the rice import value increased at an average of 12.6% per annum and by the end of the century it had increased by almost 20-fold. During the first decade of the twentieth century Perak's dependence on imported rice did not change much. As a percentage it remained between 20% to 25% of total imports.<sup>10</sup> However, from 1934 to 1938 the percentage had declined to between 12%-16% but in terms of value it had remained at an average of \$5.5 million a year.<sup>11</sup>

**Table 4.2.1 Perak: Rice imports, 1876-1908**

Year	Import Value (\$)	Year	Import Value (\$)
1876	180,620	1891	1,487,119
1877	202,697	1892	1,807,099
1878	361,249	1893	2,127,163
1879	416,396	1894	2,242,329
1880	488,515	1895	2,609,303
1881	509,664	1896	2,900,080
1882	618,191	1897	2,900,552
1883	801,189	1898	2,695,714
1884	1,037,213	1899	2,781,676
1885	1,062,981	1900	3,499,193
1886	1,143,438	1901	3,940,618
1887	1,210,147	1902	4,306,525
1888	1,373,379	1907	5,621,002
1889	1,579,683	1908	5,936,003
1890	1,541,853		

Sources: *Perak Government Gazette (PGG)* 1890, p.477; *PGG* 1891, p.489; *PGG* 1894, p.329; *PGG* 1895, p.381; *PGG* 1896, p.503; *PGG* 1898, p.429; *PGG* 1899, App. B, p.36; *PGG* 1900, App. B, p.33; *PGG* 1902, App. B, p.25; *PGG* 1903, App. B, p.25; *PGG* 1909, p.219; Lim Teck Ghee (1976), p.140.

Note: Figures for 1903-6 are not available.

In the FMS, Perak was second to Pahang in land area, comprising almost five million acres. However, the production of rice was low in relation to the land available. Although the Malay population throughout the colonial period had never fallen below

<sup>10</sup> Comparing Table 4.2.1 and Appendix 5; Dun J. Li (1955), p.40.

<sup>11</sup> Calculated from Rex, M. (1936). *Annual Reports on the Social and Economic Progress of the People of Perak 1935*, FMS Government Press; Cator, G. E. (1937). *Annual Reports on the Social and Economic Progress of the People of Perak 1936*, FMS Government Press; Cator, G. E. (1938). *Annual Reports on the Social and Economic Progress of the People of Perak 1937*, FMS Government Press; Rex, M. (1939). *Annual Reports on the Social and Economic Progress of the People of Perak 1938*, FMS Government Press.

35% of the total population<sup>12</sup>, and rice cultivation was a Malay monopoly, production was not able to cater for demand. The production of wet padi, for example, in 1952 of 18.93 million<sup>13</sup> *gantangs* was even less than that of 1922 which stood at 21.70 million<sup>14</sup> *gantangs*. The increase in population during the same period was about 40%. Apart from the Krian district, which had the largest output in Perak, other districts did not seem to be as productive. Since 1925, with other districts either maintaining or declining in padi acreages, Krian district alone produced more than 50% of Perak's total rice output.

The shortage of rice supply in Perak was also compounded by other factors. The increase in acreages did not necessarily mean a higher level of rice output, although that was the objective because rice cultivation depends heavily on climatic conditions and specialised technical know-how for good harvests. Furthermore, other more lucrative agricultural opportunities were available such as rubber and vegetable gardening. The increase in technology was much needed to boost productivity to overcome the over-reliance on imported rice. As such, the Rice Production Committee, established in 1952, recommended in their report in 1956 that additional public investment was needed to increase rice production in the state. The result of these initiatives however, could only be seen years later when British colonialism had ended. Sadka suggested that the importance of rice began to receive the administration's attention in the 1890s not because of its economic value but for food supply stocks for local defences.<sup>15</sup> However, it has to be argued that it was the economic reasons that compelled the administration to focus on rice agriculture. The

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<sup>12</sup>Based on Table 3.5.1 in Section 3.5.

<sup>13</sup>Federation of Malaya. *Report of the Rice Production Committee 1953*, pp.6-9.

1 *gantang* = 1 gallon = 4.54 litres

<sup>14</sup>Lim Teck Ghee (1977), Appendix 6.2.

<sup>15</sup>Sadka (1968), p.356.

heavy foreign exchange burden in the import trade and the need for an adequate food supply resulted in the administration's development of food policies. The administration too anticipated that only with a large and settled agricultural peasantry would the state be able to meet the food requirements of the population. The development of these policies by the colonial state will be discussed in the following section.

#### **4.3 The British food production policy**

The British colonial period had successfully transformed Perak into a leading state in an export-oriented capitalist economy based on the two primary commodities of tin and rubber. At the same time the state was dependent on the outside world for her other economic needs. While enjoying tremendous economic progress in terms of non-food export commodities, the state was simultaneously left heavily dependent on imported food supplies to feed the increasing population. This increased reliance on imported food provisions grew proportionately with the growth of population, particularly that related to the export industries. Rice then became an important imported food product for the state. The situation too presented a scenario where the state was dependent on the price vicissitudes of these commodities in the global market and which therefore put the state in a vulnerable position. While the export commodities were heavily reliant on world demand and beyond the control of the state, certain controls and initiatives could be taken to improve or reduce the import trade. The British food policy was the outcome of these circumstances and focus will only be directed towards major rice policies as these affected almost all of the population.

The colonial administration's serious attention towards food production in the state was delayed because up until the last decade of the nineteenth century there had been little difficulty in meeting the needs of the population with the cheap rice imported from neighbouring countries. For example, in the late 1880s out of the 36,455 acres that had been alienated for rice cultivation only 7,500 acres were cultivated.<sup>16</sup> The inadequate attention given by the colonial administration towards agriculture led to the suggestion that agricultural policy in these first two decades was a failure.<sup>17</sup> However, the administration's interest in domestic food production began to increase when imported rice became costly and therefore caused great loss in foreign exchange. It was also a period when cash crop cultivation especially rubber gained popularity so that peasants drifted away from rice cultivation.<sup>18</sup> Although the Department of Agriculture was established in 1905 to spearhead the development of agriculture, the support rendered by the colonial administration for rice production was not effective. The availability of alternative use of resources had also contributed to the administrative failure to increase rice production.<sup>19</sup> The 1913 Malay Reservation Act was also seen as the first step towards impeding the drift as peasant rice cultivators owned most of the land under reservation. It also set limits to the type of crop to be cultivated and encouraged rice cultivation among peasants. Although the Act's primary objective was to prevent peasants becoming landless, it was also hoped that rice production would improve. The year of the introduction of the Act too marked the beginning of the period of the 'Great Malayan Rice Shortage'<sup>20</sup> that ended in 1931.

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<sup>16</sup>Lim Teck Ghee (1976), p.55.

<sup>17</sup>Ibid. (1977), p.30. For the development of rice cultivation in Perak prior to 1900 see also Hill (1977), pp.93-118; for Malaya in general, particularly the FMS, see Cheng Siok Hwa (1969), pp.130-144.

<sup>18</sup>The rapid shift to rubber cultivation not only hampered rice cultivation activities but also other government initiatives to commercialise agricultural products such as fibres, preserved fruits, groundnuts, etc. [Kratoska (1984),p.33]

<sup>19</sup>Jomo (1988), p.61.

<sup>20</sup>Lim Teck Ghee (1977), p.103-31; Cheng Siok Hwa (1969), p.134.

By 1917, when rice production did not improve as many cultivators violated the restrictions and the import trade in rice kept increasing, the colonial administration introduced the Rice Lands Enactment to augment the policy on rice cultivation. This policy prohibited other crop cultivation apart from rice. It also suppressed involvement of the peasants in rubber cultivation. The colonial administration saw this as an effective instrument to preserve rice cultivation activities and protect their investments as well as preventing the wastage of irrigation facilities.<sup>21</sup> This policy too did not result in a great increase in rice production.

The first major crisis that forced the state to seriously consider an effective rice policy was in 1918 when Burma, the major supplier of rice, reduced their exports to Malaya due to crop failure. In the same year the colonial administration introduced the Food Production Enactment in the FMS that granted the government wide-ranging powers to increase food production should the need arise. The crisis worsened when drought plagued both Burma and Siam. In response to the crisis, rice controls had to be introduced for the first time. During this control period that ended in 1921, the colonial administration took over all commercial stock and managed imports of rice and at the same time had to subsidize the sale of imported rice to consumers. It was reported that the FMS had incurred a loss of \$24 million during the rice control period in subsidies.<sup>22</sup> The severity of the crisis too compelled the administration, under the powers given by the Enactment, to require the plantation sector to share some responsibility in food production to meet the state's needs. The overall result of this initiative was disappointing, as the plantations belonged to the capitalist organisations

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<sup>21</sup>Ibid., p.119-20.

<sup>22</sup>Ibid., p.136 fn.71. Perak being the most heavily populated state in the FMS during that time had to incur the majority of these losses.

and they were not interested. This policy requirement towards the plantation sector was repealed in 1921.

The Food Production Enactment, however, had positive results for the peasantry. Coupled with high prices and demand for rice during the period, Perak recorded a peak in production in 1920 with 13 million *gantangs*<sup>23</sup> or about 44% of state consumption. The administrative pressures too resulted in the opening of new rice fields such as in Kuala Kangsar and Lower Perak (now Hilir Perak). This tremendous increase in production was short-lived because when the crisis was over and cheap rice imports began to resume in 1922 rice production began to decline again.

While rice production did not expand significantly, the demand grew enormously as the population in the ten-year period since the rice crisis began had increased by almost 29%.<sup>24</sup> The persisting rice crisis led to the establishment of the Rice Cultivation Committee in 1930, which a year later recommended the construction of drainage and irrigation facilities in promoting rice cultivation.<sup>25</sup> The Drainage and Irrigation Department (DID) was then set up in 1932. Despite their primary function of consolidating existing rice production and helping intensify it with the provision of facilities and other advisory assistance, after seven years the increase was marginal.<sup>26</sup> Although rice yields increased with the provision of irrigation facilities, this was offset by the declining acreages during the same period.<sup>27</sup> During the early part of the

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<sup>23</sup>Ibid., pp.123, 136 fn. 83. Price of padi during the 1911-1914 period was estimated to be 7 to 8 cents per *gantang*, which increased to 11 cents in 1918. In 1919 it further increased to 13 cents per *gantang*. These prices are those of the Krian area; in outlying areas the price could be as high as 17 to 18 cents per *gantang*.

<sup>24</sup>Calculated from Table 3.5.1 in Section 3.5.

<sup>25</sup>This essentially was to promote efficient water control, see Federated Malay States. *Report of the Rice Cultivation Committee 1931*, Vol. 1, p.24.

<sup>26</sup>Jomo (1988), p.62.

<sup>27</sup>Goldman (1974), p.32 cited in Ibid.



colonial period, increased tin mining activity and demand for more land had also contributed to the decline of padi acreages. The increase in aggregate rice production therefore remained insignificant. The productive yield capacity per acre, however, was lower than that in areas where there were no irrigation facilities; this led to the inference that government irrigation facilities, 'by and large, serve only as a replacement function'.<sup>28</sup> The new rice cultivation schemes introduced by the DID were seen as more of an inducement to attract peasants to the low paying occupation of rice cultivation.<sup>29</sup>

From the 1930s onwards no major enactment was introduced except for the introduction of import duty on rice to raise revenue for further promotion of rice cultivation.<sup>30</sup> After the Second World War the colonial government offered to purchase rice at a guaranteed minimum price in order to encourage rice production. This approach had its drawback since the price adjustments were slow and offers were often below the prevailing market price. In 1952 when the world price of rice began to rise again the government was forced to re-examine its rice policy. This led to the establishment of a Rice Production Committee set up to identify methods that could increase domestic production. Their 1953 report recommended that additional public investment be employed in fertilizer subsidies, varietal research and data collection, and also singled out double-cropping<sup>31</sup> as the most promising means to increase

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<sup>28</sup>Lim Chong Yah (1967), p.165.

<sup>29</sup>Ibid.

<sup>30</sup>Jomo (1988), p.63.

<sup>31</sup>The practice of double cropping was first introduced in Perak by the Japanese during the Second World War, see Van Thean Kee, 'Cultivation of Taiwan Padi in Perak during the Japanese Occupation' in *The Malayan Agricultural Journal (MAJ)*, Vol. 31, No.2, April 1948, Department of Agriculture, pp.119-122.

output. In their final report in 1956, emphasis was placed on the expansion of drainage and irrigation facilities to facilitate double cropping.<sup>32</sup>

Throughout the colonial period, efforts and policies to encourage non-Malays to become involved in rice production did not materialise. In 1890 a large tract of 1,100 acres of land granted to 466 Chinese settlers in Sitiawan for rice cultivation<sup>33</sup> was instead planted with rubber with the government's approval.<sup>34</sup> In addition, the majority of the 202 Indians granted with 530 acres of land in Teluk Anson by the government,<sup>35</sup> discontinued their rice cultivation.<sup>36</sup> The little appeal that rice cultivation had for the Chinese and Indians was best portrayed by Krian, the largest rice production area in Perak, which had only 500 Indians and 160 Chinese as rice cultivators towards the end of the 1890s.<sup>37</sup> Other opportunities and wage-labour were more attractive to them. The colonial administration's policy in opposing the granting of land for enterprises formed to promote rice cultivation had further discouraged the Chinese from being active in the industry.<sup>38</sup>

In sum, the development of a capitalist economy in Perak during the colonial period instigated the rapid growth of population, which in turn, necessitated imports of huge quantities of rice. Despite the attempts of the colonial government to improve domestic rice production, these were not sufficient to produce a strong and properly

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<sup>32</sup>The Krian Irrigation Scheme, for example, was not designed for double cropping. Upgrading and modifications were needed to allow for adequate water supply, which were subsequently undertaken, see Jackson (1972), p.91.

<sup>33</sup>PGG 1892, p.722.

<sup>34</sup>Tan Ding Eing (1963). *The Rice Industry in Malaya 1920-1940*, Number 2, Singapore Studies on Borneo and Malaya, Singapore: Malaya Publishing House Limited, p.16.

<sup>35</sup>PGG 1892, p.722.

<sup>36</sup>Hill (1977), p.102.

<sup>37</sup>Ibid., p.103; In 1891 a total of 40,000 acres were reported to be under rice cultivation in Krian (PGG 1892, p.841)

<sup>38</sup>Tan Ding Eing (1963), p.34.

structured development of the rice industry. The use of better seeds, for example, was only initiated in the middle of the 1930s and, although policies were introduced to improve rice production, the failure to provide adequate specialists and technical advice to the rice growers contributed to these very modest achievements. While the emphasis had always been to increase the acreages of padi land, this development did not correspond well with the development of technology. Except for Krian and Sungai Manik, where a substantial amount of money was invested, other areas did not receive such attention. The use of compulsion and inducements through the various policies were not, however, an outstanding success.

#### **4.4 The establishment of the Krian and other irrigation schemes**

To the population of Perak, the availability of rice was important as it represented their staple consumption. The strategic role of rice then became critical, as without the capacity to meet these basic needs, the capitalist economy brought into being by the colonial government would be difficult to sustain. It was therefore essential for the administration to ensure that basic food needs were met and at the same time seek to provide the commodity as cheaply as possible. In the rice cultivation industry efficient water control in the padi field is one of the critical factors in obtaining a good harvest. To intensify rice production and simultaneously encourage peasants into the industry the provision of irrigation facilities<sup>39</sup> became vital.

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<sup>39</sup>For a review of the development of irrigation policy in Malaya prior to the establishment of the DID, see Short, D. E. and Jackson, J. C., 'The Origin of an Irrigation Policy in Malaya' in *JMBRAS*, 44(1), 1971, pp.78-103.

During the early colonial period in Perak rice was grown wherever Malay settlements were found, particularly in the swamps in Krian and Lower Perak.<sup>40</sup> Some irrigation was in place but was not widely used, although traditional methods were employed in the trapping of water and later released as the crop ripened. Knowledge of drainage and irrigation was believed to have existed in the 1880s and 1890s as the Malay leaders, who were district chiefs in former times, began to seek loans from the colonial government for building irrigation works.<sup>41</sup> It was reported that 1894 was the peak period for irrigation construction when five small schemes were initiated. This was followed by one or two other schemes a year until the close of the century when Perak had 20 irrigation schemes in total.<sup>42</sup> These, however, were private and not government initiatives.

The colonial government's first direct initiative towards provision of irrigation facilities came almost twenty-five years after the intervention in the establishment of the Krian Irrigation Scheme, the largest ever attempted at the time. Initiated in 1899 and completed eight years later the scheme was developed at a cost of \$1.6 million to serve some 50,000 acres of padi land.<sup>43</sup> Another major scheme but smaller than the one in Krian was at Sungai Manik in Lower Perak. The scheme was initiated in 1932 to cover an area of 25,000 acres,<sup>44</sup> and two years later 6,000 acres of land was opened for rice production.<sup>45</sup> Earlier in 1926 work was reported to have started in the construction of the Kenas irrigation scheme near Kuala Kangsar. In the 1930s there

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<sup>40</sup>Sadka (1968), p.351.

<sup>41</sup>Hill (1977), p.98.

<sup>42</sup>Ibid., p.105.

<sup>43</sup>For a comprehensive history of its establishment, see Short and Jackson (1971), pp.78-103.

<sup>44</sup>Selvadurai, S. (1972). *Padi Farming in West Malaysia*, Kuala Lumpur: Agriculture and Fisheries Ministry, p.102.

<sup>45</sup>Tan Ding Eing (1963), p.27; and for a comprehensive survey of the Sungai Manik Scheme, see Short, D. E. (1971). 'Some Aspects of the Role of Irrigation in Rural Development of Malaya', PhD. Thesis, University of Hull; also Ferguson, D. S., 'The Sungei Manik Irrigation Scheme' in *Malayan Journal of Tropical Geography*, Vol. 2, 1954, pp.9-16.

were other smaller schemes established in Jenderata, Pulau Tiga and Bagan Datoh, all in the district of Lower Perak.<sup>46</sup>

Throughout the colonial period there were only two major irrigation schemes initiated by the colonial government. While the government had the desire to preserve and expand rice production towards self- or near self-sufficiency as a means to increase the living standards of the peasantry and to support the development of the capitalist economy, the outcome did not reflect this. For one thing, the awareness of the importance of water control was recognised at a very early stage by colonial officials but initiatives came much too late.<sup>47</sup> The colonial government recognised too that in order to increase production, assistance must be given to the Malays, as they did not have the capacity to raise capital to build such facilities on their own. Although provision of loans was made for the Malays to construct small irrigation facilities, these were rarely adequate to meet the whole cost.<sup>48</sup>

The government's approach towards providing irrigation facilities did not come without a price to the peasantry. The construction of these schemes, Krian for example, was not fully financed by the colonial government.<sup>49</sup> Upon completion, the peasantry were required to pay an enhanced rent, apart from the land rent, in the form of water rates.<sup>50</sup> Since the capital outlay was considerable, the additional exactions would ensure sufficient return to the state. Although the colonial government had the responsibility to provide infrastructure to increase rice production, and in turn would recover the costs from revenues generated by the settlements, this only took place in

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<sup>46</sup>Lee Kam Hing (1978), p.30.

<sup>47</sup>Jomo (1988), p.58.

<sup>48</sup>Hill (1977), p.105.

<sup>49</sup>Jomo (1988), p.59; Hill (1977), p.113.

<sup>50</sup>Lim Teck Ghee (1976), pp.59-60.

this sector and not in the production of other commodities. The viability and possibility of profitable return on investment thus became the state's stance on any rice cultivation schemes undertaken.<sup>51</sup> The promotion of increasing rice production too took place at various times during the colonial period, when other more remunerative opportunities existed. The enhanced exactions only discouraged settlers. The imposition of water rates later became compulsory in all padi land served by government irrigation facilities in Malaya.

Although the eight decades of colonial administration saw many policies being passed, which reflected the importance of the development of rice production to the government including the Irrigation Areas Enactment of 1934 and the establishment of the DID, implementation was rather sluggish compared to the development of rubber and tin. While these two commodities had generous infrastructure provision from the colonial government, the rice industry did not. Considerable provisions were made only after the Second World War. The DID, in particular, was allocated a large budget to expand irrigation and drainage facilities.<sup>52</sup> The unsatisfactory results in the rice industry led to the suggestion that low achievement was attributed to the reluctance of the colonial government to allocate adequate funds for the peasant sector as the return on investment to the state was not sufficient to justify the capital outlay. Despite all the efforts that were undertaken to promote rice production in Perak, what the state really needed were more reasonably sized modern irrigation schemes in various parts of Perak. Such schemes would include the provision of adequate funds and expertise for irrigation projects. Only with proper and suitable irrigation facilities would double cropping be possible to increase production more rapidly compared to

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<sup>51</sup>Ibid., p.61.

<sup>52</sup>For the first time the DID was allocated \$38 million under the First Malaya Plan (1955-60) for development purposes.

the continuous opening of new land for cultivation. The colonial government's attention and financial efforts were unfortunately directed more towards other priorities, particularly the infrastructural support for the promotion of tin and rubber. In addition, the emphasis on technological improvements in rice cultivation was not promoted consistently from early on. Nevertheless, policies established by the colonial government on drainage and irrigation provided Perak and Malaya with a foundation for the development of rice self-sufficiency policies in the post-colonial period.

#### **4.5 The Malay peasantry in rice production**

The involvement of the Malay peasantry in rice agriculture had existed since time immemorial, long before British colonialism in Perak. Increasing involvement of the Malays was the result of colonial policies, which encouraged rice cultivation among the peasantry.<sup>53</sup> While this statement was true during the early colonial period, the transformation that took place within the agricultural sector in the later period forced the Malays to change too, particularly in their involvement in other crops besides rice.

In the attempt to develop a thriving capitalist economy, the development of a rice producing peasantry was central for a number of reasons. Perak needed to focus on the availability of permanently settled peasant farmers rather than those involved in shifting cultivation so as not to interfere with the colonial government's strategy to expand the plantation sector. The presence of shifting cultivation restricted or

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<sup>53</sup>The Colonial government's pro-Malay attitude in the rice industry resulted in the assertion that the industry was designated as a special preserve for the Malays only. [Cheng Siok Hwa, 'The Rice Industry of Malaya: A Historical Survey' in *JMBRAS*, 42(2), 1969, p.132]; prior to 1930 the encouragement to cultivate rice and increase both production and quality was aimed at increasing the living standards of the Malays rather than encouraging participation in the export economy [Kratoska (1984), p.34].

prevented any move to expand the plantation sector on a large scale. Economically, a permanent peasantry would contribute more efficiently to the growing local consumption needs. Finally, the foreign exchange outflows proved to be an escalating burden to the colonial government. This was clearly evident when within a 25-year period from 1876 rice imports had increased almost 20-fold.<sup>54</sup> While population growth continued apace, the need to promote aggressively peasant rice production became vital.

During the early years of colonialism, the exactions to the territorial chiefs worked against the increase in rice production. The benefit of the increased yields would not accrue to the peasants but to the territorial chiefs.<sup>55</sup> The introduction of colonial land policy succeeded in overcoming this predicament whereby peasants had total possession of rice production generated from their own land. This was the first step towards increasing rice production in colonial Perak. However, the implementation of the colonial land policy in certain circumstances did not encourage an increase in rice production due to the limited size of land being alienated. In Blanja, an area near Parit, a hundred-acre block of land suitable for rice agriculture was alienated to a hundred people.<sup>56</sup> When subdivided each parcel proved too small for any rice enterprise.

The worst year for rice production in Perak was in 1927 when production of 12.4 million *gantangs* was at its lowest (see Table 4.5.1). Crop failure was attributed to bad weather and poor seeds. The poor harvests continued for several years and only recovered fully in 1934. While climatic conditions were important in rice cultivation

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<sup>54</sup>See Table 4.2.1 in Section 4.2.

<sup>55</sup>Sullivan (1982), p.25.

<sup>56</sup>Hill (1977), p.105.



there were also other factors that influenced the slow progress in increasing rice production. Although the provision of irrigation and drainage facilities was vital, it was clearly inadequate to assist the peasantry in terms of financial assistance and the development of technology.

**Table 4.5.1 Perak: Wet padi production 1922-1957 (million *gantangs*)**

Year	Production	Year	Production	Year	Production	Year	Production
1922	22	1931	n.a	1940	n.a	1949	32
1923	22	1932	24	1941	17	1950	27
1924	n.a	1933	24	1942	n.a	1951	29
1925	n.a	1934	28	1943	n.a	1952	19
1926	21	1935	29	1944	n.a	1953	27
1927	12	1936	29	1945	n.a	1954	29
1928	20	1937	30	1946	18	1955	26
1929	n.a	1938	24	1947	18	1956	32
1930	n.a	1939	n.a	1948	29	1957	35

Sources: Lim Teck Ghee (1977), Appendix 6.2, p.256; Lim Chong Yah (1969), Appendix 6.2, p.341.

Note: n.a - not available

The development of other more lucrative agricultural and non-agricultural activities was another reason for the mediocre performance of the colonial government in encouraging Malay peasants to concentrate on increasing rice production during the colonial period.<sup>57</sup> The prevailing low prices for padi resulting in low income saw the peasants withdrawing from this activity for higher priced agricultural products, particularly rubber.<sup>58</sup> During the boom years for rubber prices it could be expected that peasants' earnings were exceptionally high for half a day's work. Similar effects could be seen in the coastal area of Perak where copra was in demand and in central Perak, particularly in the Kinta district, where market-garden products commanded attractive prices. The prospect of better immediate returns explains why there was a lack of enthusiasm on the part of the Malay peasants to embark on commercial rice cultivation or to maintain non-essential rice lands.<sup>59</sup> Rice cultivation was generally

<sup>57</sup>Short and Jackson (1971), pp.86-7.

<sup>58</sup>Lim Teck Ghee (1977), p.21; Jomo (1988), p.56.

<sup>59</sup>Kratoska (1975), p.8.

not as profitable as other activities.<sup>60</sup> For the state it only represented a small revenue in land rent as compared to other commercial crops that attracted export duty as well.

Table 4.5.2 below can best demonstrate the Malay peasants' response to the colonial government's rice production efforts throughout Perak. Earlier distribution figures were not available while those presented are for selected years to illustrate peasant involvement in terms of acreages. Due to the nature of padi growing, actual production did not need necessarily to correspond to the acreage planted especially with the introduction of double cropping towards the end of the colonial period. The year 1920 was the peak in Perak's achievement both in terms of acreage as well as production.<sup>61</sup> From then until the end of colonialism the total acreage engaged by peasants in rice production fluctuated despite the provision of irrigation and drainage facilities in certain areas coupled with improvements in planting procedures. Table 4.5.2 also indicates a trend whereby rice cultivation began to cluster in districts where improved rice-planting facilities were provided. For this reason the districts that were rather more consistent in their padi acreages were Larut, Krian, Kuala Kangsar and Lower Perak. While this could indicate that the provision for rice production facilities was lacking in other districts, the availability of other more promising and profitable activities, particularly rubber cultivation, were more evident there; this was the result of increased familiarity with commercial agriculture, which had weakened the Malays' strong traditional inclination towards cultivating rice, at least on part of their land for their own consumption.<sup>62</sup> Additional distractions were the abundance of high quality timber and forest products in Upper Perak, the high demand for market-garden

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<sup>60</sup>For some comparison against other crops, see Lim Teck Ghee (1977), p.258 Appendix 7.1; Sadka (1968), p.356; Tan Ding Eing (1963), Appendix V, p.45.

<sup>61</sup>Lee Kam Hing (1978), p.10.

<sup>62</sup>Rex (1936), p.17.

products in Kinta and the importance of copra and the fishing industry in Dindings (now Manjung).

**Table 4.5.2 Perak: Distribution of rice cultivation areas, selected years (in thousand acres)**

Year	Larut	Krian	Kuala Kangsar	Upper Perak	Kinta	Lower Perak	Batang Padang	Dindings	Total
1920	13.0	54.4	17.9	7.0	0.8	13.1	18.3	n.a	124.5
1925	13.0	54.8	24.8	4.8	3.2	4.8	2.3	n.a	107.7
1926	13.5	54.8	16.0	5.2	0.9	3.3	3.3	n.a	94.7
1931	12.0	51.0	18.2	7.2	0.7	7.4	3.2	n.a	99.6
1932	12.2	50.0	21.2	5.8	3.0	8.8	4.2	n.a	105.2
1939	12.6	54.8	21.5	5.4	0.6	11.8	3.0	0.7	110.4
1948	12.0	54.5	18.5	3.5	3.0	17.0	1.5	10.5	120.0
1952	12.5	56.0	15.0	3.5	0.5	13.0	0.1	1.0	101.5

Sources: Lee Kam Hing (1978), 'A Socio-Economic History of Perak 1920-1939' in Lee Poh Ping & Lee Kam Hing, *Some Socio-economic Aspects of Perak Society, Malaysia*, No. 6, Joint Research Project, Institute of Developing Economies, Japan, Appendix I, p.65; Federation of Malaya. *Report of the Rice Production Committee 1953*, p.96.

Despite the encouragement by the colonial government, it does not seem that there was a significant increase in acreage within the four main districts of rice production in Perak. The two districts, Krian and Lower Perak, where the colonial government had spent most of the money to establish their major irrigation facilities, failed to attract new peasants in sufficient numbers. The irrigation extension programme in Krian, which was implemented prior to the war in 1941, providing an additional 10,000 acres to the existing 50,000 acres of padi land, had seen peasants slow in responding. In 1952 about 4,000 acres of land was still available for the taking. The Sungai Manik scheme in Lower Perak presented a similar scenario. Originally planned for a 25,000-acre scheme, at its peak, the scheme still had an excess of unused padi land. This is evident in 1948 when the whole of Lower Perak had only 17,000 acres of padi land cultivated where Sungai Manik was one of the schemes in this district.<sup>63</sup> There was a more depressing state of affairs in Kinta and Batang Padang when at the end of the colonial period padi production in these two districts

<sup>63</sup>It was reported that in 1957 padi acreage for this scheme had declined to about 14,000 acres only. [Cheng Siok Hwa (1969), p.138]

was almost totally abandoned because the focus was shifted to market gardening and rubber cultivation.

The introduction of the Malay Reservation Act with the objective of protecting the Malays also came with an imposition on crop cultivation conditions,<sup>64</sup> which in most cases, restricted cultivation mainly to padi. To the peasantry such a restriction was a heavy price to pay since it meant that the opportunity to achieve higher incomes was also foreclosed. The peasants had to adhere to the colonial government's requirement to cultivate rice against their wishes. Although the restriction was legislated for, the peasants' disinclination was clearly exemplified by the declining acreages in rice cultivation in Perak during the colonial period.

In the early 1920s rubber prices on the world market began to slide.<sup>65</sup> Excess supplies forced the introduction of the Stevenson Restriction Scheme that imposed compulsory limitations on rubber production.<sup>66</sup> For the rice cultivation industry this was a blessing as the restriction scheme, seen as an attack on the peasants, forced them back to rice cultivation. This blessing, however, was short-lived. As the price of rubber began to increase, padi fields were abandoned once again and rice production declined correspondingly.<sup>67</sup>

In 1948 when communist insurgency began to create instability throughout the country, a state of emergency was declared and peasant rice production was affected again. The threat, which was brought to an end in 1960, required the colonial

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<sup>64</sup>Jomo (1988), p.60.

<sup>65</sup>See Table 5.3.3 in Section 5.3.

<sup>66</sup>For further details on the Stevenson Restriction Scheme, see Section 5.2 .

<sup>67</sup>Jomo (1988), p.62.

government to implement tough security measures, including the resettlement of padi-growing peasants to areas where rice cultivation was not possible or where the fields were too far away. The introduction of curfews in the state too prevented the peasants from working long hours in the padi fields. Although not all peasants were affected by the resettlement requirement, it did hamper peasant participation and the colonial government's efforts in increasing rice production.

In sum, the Malay peasants' involvement in increasing rice production in Perak did not develop as significantly as the colonial government had envisaged. On the one hand there were more rewarding economic activities for the peasantry, on the other, the attempts to change the mindset of peasants towards rice commercialisation proved quite difficult owing to the traditional nature of subsistence production. The greatest contributory factor towards this sluggish development, however, was attributed to the inadequate and uneven provision of facilities provided by the colonial government throughout the state. In addition, Lim's assertion that the increase in rice production in the FMS was the result of increases in padi acreages<sup>68</sup> rather than in the productivity of peasants, does not seem relevant to Perak as there was an overall decline of acreages. This can only suggest that irrigation facilities and technology that enabled double cropping towards the end of colonialism were the driving force in increasing rice production and it was these elements that the peasants in other areas throughout the state were lacking.

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<sup>68</sup>Lim Teck Ghee (1977), p.124. The study carried out was up to 1941.

#### 4.6 The role of the colonial state in rice production

In line with the envisioned capitalist economy, colonial rule had seen the government play an increasingly important role in developing and shaping the state. A successful capitalist economy, in theory, could not be achieved if the main food supply line was not made available. Since the Malays were already engaged in this industry as their traditional occupation, further encouragement to them was deemed appropriate to increase rice production. The availability of sufficient internal food production was critical for defence too. This section, therefore, provides an examination of the depth of the involvement and the role undertaken by the colonial government in promoting rice production in Perak to ensure proper support to the capitalist economy.

In order to promote and intensify rice production, changes to the existing approach of concentrating on shifting cultivation had to be promoted and efforts had to be made by the colonial government to induce the Malays towards permanent settlement. To this end the colonial authorities made occasional attempts to assist the peasants to settle permanently. Reluctance on the part of the Malay peasants was partly due to the influence of the prevailing socio-political environment that discouraged permanent settlement. While this sentiment was fast fading away, the existing land rent structure did not help either. The 1879 and 1885 land regulations stipulated that the quit rent for *ladang* (swidden land) producing dry padi had been fixed at 25 cents per acre while those of *bendang* (wet padi land) were at 50 cents per acre.<sup>69</sup> These rates would therefore obviously influence the peasants' inclination towards shifting cultivation. However, as a matter of policy, a decision was made by the colonial government to disallow this form of cultivation, which eventually saw almost all the peasants revert

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<sup>69</sup>Lim Teck Ghee (1976), p.66.

to wet padi production. By 1951 less than 5% of total padi production in Malaya consisted of dry padi,<sup>70</sup> and in Perak, dry padi production was less than 1% of total padi production in 1952.

In order to stimulate agricultural production in Perak the colonial government passed various legislations. In rice production, incentive schemes and project aid were implemented, which unfortunately did not produce an encouraging outcome. One of the factors attributed to this failure was the giving of cash advances and free rent to peasants. The provision of free land rent was deemed a mistake; a better approach would be the postponement of payments after harvest instead.<sup>71</sup> Cash advances to peasants did not produce the desired results either, as peasants vacated their land once money had been spent. Three projects of various sizes in Lower Perak in the early 1890s, for example, where the above incentives were given, experienced this setback: the first was in Telok Anson (now Teluk Intan) and Sitiawan, the second in Sungai Nibong and Batak Rabbit, and the third was also in Telok Anson.<sup>72</sup> All these projects failed miserably and resulted in monetary loss to the state.

It was acknowledged within the colonial government that Perak, with her vast land area, was lacking in human resources in all sectors, including in rice production, to meet her needs. On the part of the peasantry more human resources were required to open up and work on padi land. The Department of Agriculture was established in 1905 with the primary role of improving and promoting agricultural activities particularly rice, coconut and rubber. While there was no improvement in terms of

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<sup>70</sup>Mackenzie, K. E. (1952). *Malaya: Economic and Commercial Conditions in the Federation of Malaya and Singapore*, London: Her Majesty's Stationery Office, p.29.

<sup>71</sup>Lim Teck Ghee (1976), p.76.

<sup>72</sup>Ibid., pp.71-2; Sadka (1968), pp.358-9.

rice acreage expansion<sup>73</sup>, in fact it was declining, it can only be deduced that the opening of new padi land in the state, with the assistance of the Department of Agriculture, merely mitigated the decline in land area, which otherwise would have been more severe.

The incentives offered by the colonial government in intensifying rice production without doubt were well meant but when compared to other economic sectors it lagged far behind in attention, funding and expertise. In the 1950s it was established by the Rice Production Committee that the declining interest in padi cultivation was the indirect result of the shortage of staff in the Department of Agriculture. Rice-growers needed their support especially for seed, advice and amenities. Therefore, the shortages that existed both on the part of the peasants as well as the government should have been a prime concern if intensive rice production was to be achieved. The government's action concerning staff shortages was only addressed towards the end of the colonial period. On the peasant growers' side, the problem was addressed very much earlier before the twentieth century with the encouragement of immigration from the Malay Archipelago to grow padi<sup>74</sup> along with special incentives and aid offered to attract them.<sup>75</sup> It could be reasoned that this was where part of the problem in failing to increase rice production occurred. While the anticipated mass immigration did not take place, the local communities were denied the same inducements. Therefore, the government failed on both fronts: immigration was not as high as expected and the local peasants were disinclined to concentrate on rice production alone. The implementation of the Malay Reservation Act that prescribed

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<sup>73</sup>See Table 4.5.2 in Section 4.5

<sup>74</sup>Jomo (1988), p.58; Jackson (1972), pp.79, 90; Othman Mohd Yatim (1977), p.10.

<sup>75</sup>See fn.105 in Chapter 3.



the type of cultivation further affected the response from the peasantry since other crops offered better returns.

The failure to establish Malay colonies of rice growers in Perak prompted the colonial government to attract immigrant Chinese and Indians instead.<sup>76</sup> While they too were offered incentives the response was also disappointing. This failure was partly attributed to the colonial government itself because inadequate effort was put in to see the plan through.<sup>77</sup> At the same time the large numbers of Chinese and Indian immigrants had already been absorbed by the tin mining and rubber plantation industries. Above all, the contrast that existed in the rice production industry where remuneration was low and uncertain, while other industries in the capitalist sector were enjoying increased wages, had almost certainly discouraged most of the Chinese and Indian immigrants from being involved in rice production.<sup>78</sup>

Since the beginning of the rice crisis in 1913, the colonial government took a positive step in introducing a guaranteed minimum price policy that entailed preventive measures towards the declining price of rice. It was hoped that this could persuade peasants to intensify rice production and at the same time attract producers to sell rice to the government. To support this move, the government set up two rice mills in Kuala Kurau and Bagan Serai, both in the district of Krian.<sup>79</sup> While this policy provided protection for the peasantry, the minimum price set by the government was often underestimated by a substantial margin when compared to the world market price. This was particularly due to the fluctuation in the prices and the slow response

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<sup>76</sup>Hill (1977), p.180.

<sup>77</sup>Ibid.; Lim Teck Ghee (1977), p.17.

<sup>78</sup>Lim Teck Ghee (1976), p.134; Jomo (1988), p.57.

<sup>79</sup>Tan Ding Bing (1963), p.17; Lim Teck Ghee (1977), p.156

by the government. While the rice production schemes aided by the government were subject to a compulsory sales programme, the minimum price therefore was not helpful to the peasants when the differential margins were considerable.<sup>80</sup> This policy, therefore, would obviously be most welcomed when the guaranteed minimum price was higher than the world market price, which was a rare occurrence.

While the colonial government acknowledged the importance of rice development and its own role in providing irrigation, drainage and water communication networks to promote rice production, despite all its efforts in Perak, the outcome was disappointing. If the expansion of acreage is used as a yardstick, then the role played by the colonial government in promoting rice agriculture was a failure. While the existence of other more lucrative crops could have been the strongest influence on the poor response, prohibiting such changes too was not beneficial to the state. Allowing peasant entry into other agricultural activities should have been encouraged rather than deplored as that could have provided a more ethnically balanced economy. This, however, would have had to be done at the expense of increasing rice production.

#### **4.7 Summary and conclusion**

The increasing population in Perak was one of the reasons why the focus on increasing rice production became important. In parallel with it were the objectives of saving on foreign exchange accounts as well as providing for local food needs. The increasing dependence on rubber and tin also meant that the bulk of the population's food needs had to be imported. Although part of the colonial government's dual agricultural policy was to encourage native production, the comparative advantage of

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<sup>80</sup>The compulsory sales programme in Malaya ended in 1950.

export-oriented cultivation, especially rubber, over native agriculture resulted in limited expansion of the latter, particularly rice production, despite increased demand from the ever-growing population.

As part of the colonial campaign to encourage native agricultural production, the government developed various policies, legislations and to some extent infrastructures with the intention of assisting and expanding the peasant rice economy. The assistance, however, was viewed as far less when compared to the attention given to other commodity sectors. Looking back, the colonial rice policy in Perak had been a mixed success, but it lagged far behind the other sectors. The total acreage utilised for rice cultivation declined from its peak of 124,500 acres in 1920 to slightly more than a 100,000 acres in the early 1950s. Most of the padi land that was left towards the end of the colonial period was in areas where irrigation and drainage facilities were established by the colonial government. In others they were either abandoned or planted with other crops, a clear sign of better opportunities elsewhere.

If the increase in rice production is used to measure the achievements of the rice policy, then the success was a very limited one, although there was a 59% increase in total rice production between 1922 and 1957. This increase took place after a span of three and half decades with shrinking padi acreages. Furthermore, the majority of the increases occurred after the Second World War when double cropping was introduced. The rise in production could, therefore, only be attributed to better facilities, improved farming methods, superior seeds, and advanced technology provided by the colonial government as the result of public pressure to improve the peasants' income. While the large-scale development schemes such as Krian and Sungai Manik have made a

major contribution towards promoting rice cultivation in the state, the need for small-scale schemes, if implemented, could have avoided the loss of padi areas in most of the districts in Perak.

The colonial government's rice development policy, therefore, was more strategic than economic and this was demonstrated by the approaches undertaken both in policies and implementation, and by the response of the peasantry themselves. It was strategic since it had been a colonial policy to preserve the status quo of the traditional rice cultivating practices of the Malays and also the desire for the state to grow at least some, if not all, of her staple food requirements. On the other hand, it was difficult to justify the policy in economic terms since the return from cultivating an acre of padi had never been higher than cultivating an equivalent acreage of rubber. Despite the growing rice trade account, most of the time it was cheaper for the state to import rice rather than produce it. The interplay of these strategic and economic forces eventually hindered the economic modernisation of the Malays in the capitalist economy and contributed to an ethnic-based division of labour among the population of Perak.

While the rice production policy was not totally successful, the economic base of Perak, which was dependent on a very limited range of export commodities, could have been made more secure had the cultivation of food and other export crops been broadened hand-in-hand with the tin and rubber sectors. These crops could have been dispersed throughout the state to enable a more well-rounded economic development of the rural areas. Better still, if the Malays had been given more opportunities to develop a more balanced economy. By limiting the focus on rice production, the state was not enlarging its economic options, and coupled with a weak implementation

strategy the end result was more towards the preservation and maintenance of rice cultivation traditions.

## CHAPTER 5

### THE ECONOMIC EXPLOITATION OF TIN AND RUBBER IN THE COLONIAL PERIOD

#### 5.1 Introduction

The history of the mines...is practically the history of the state for it is very difficult to disentangle the one from the other. Without its tin, Perak would undoubtedly now been an unknown jungle. It was its mineral wealth which first brought it into notice and which has in these later years produced the funds for its rapid development.<sup>1</sup>

The transformation of Perak into an advanced state compared to any other states in Malaya began with British intervention in 1874. Although other reasons were also forwarded to justify the intervention, ensuring the uninterrupted flow of the state's abundant reserves of tin was the most central. The exploitation of tin that was in great demand by the Western world instigated the economic growth of the state. The economic growth was later strengthened by the cultivation and export of natural rubber. Throughout the colonial period, the role played by the state was vital in ensuring economic success. It was within this economic framework that the state was also engaged in the necessary function of removing the traditional 'feudal' structure that was perceived as a hindrance to economic progress. This 'feudal' structure was replaced with the basic legal and institutional mechanisms, which were required for the functioning of a colonial government in order to encourage state economic development through private enterprise. This was the thrust used by the colonial state in the exploitation of tin and rubber in Perak. A brief account of the development of the exploitation and export of the

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<sup>1</sup>Fermor (1939), p.23.

state's economic resources is therefore vital in understanding the transformations that took place during and after colonial rule.

## **5.2 The state and the development of tin and rubber**

The success in the development of tin and rubber provided the state with the funds needed to support the construction of infrastructure and the establishment of institutions and agencies to bring about the economic 'modernisation' of Perak. The opportunities afforded by these primary resources also influenced the approach to state governance and policies for the benefit of capitalist development.

The development of tin mining in Perak was closely related to the industrialisation of the West in the course of the 19<sup>th</sup> century. It was a time when industrialisation had created the growth and demand for raw materials, particularly for the development of the tin-plate industry. Since these countries, where tin was in demand, did not have the quantity or quality sought after or they had none at all, they had to turn to underdeveloped countries for the precious metal. Therefore, the same period also saw Perak's involvement in the international markets via the export of tin to the West, its main destinations being the United Kingdom and United States. It was against this background of Western industrialisation that Perak was brought to the forefront of the world economy because of its abundant reserves of tin. The continuous increase in tin export duty collected had provided the much-needed initial capital and a turning point for the economic development of Perak (see Table 5.2.1).

**Table 5.2.1 Perak: Export duty on tin collected 1875-1919**

Year	\$	Year	\$	Year	\$
1875	n.a	1888	851,420	1901	3,473,165
1876	n.a	1889	937,293	1902	4,470,319
1877	140,292	1890	866,730	1903	5,067,412
1878	245,512	1891	812,956	1904	4,607,559
1879	281,823	1892	1,124,931	1905	4,874,820
1880	298,805	1893	1,333,890	1906	5,432,675
1881	387,642	1894	1,648,981	1914	4,181,077
1882	457,410	1895	1,669,707	1915	4,373,289
1883	619,809	1896	1,541,442	1916	5,012,067
1884	641,351	1897	1,346,707	1917	5,796,437
1885	547,648	1898	1,601,310	1918	8,430,276
1886	611,869	1899	3,073,441	1919	6,200,775
1887	720,247	1900	3,570,631		

Sources: *PGG 1903*, App. M, p.51; *PGG 1907* (supplement), App. H; Perak, *Estimates of Revenues and Expenditures*, years 1916-1921.

Note: Figures for 1907-13 are not available.

Tin had been produced in Malaya for centuries. In the early days, tin mining had been entirely in the hands of the Malays. In Perak, when tin was discovered in Larut in the 1840s the structure of production began to change. Due to shortage of labour, Chinese immigrants were brought in to work in the tin mines; not long after the migration, they had succeeded in establishing control over the Perak tin industry. The Chinese involvement was so profound that in 1880 there were 978 mines covering an area of 16,000 acres in the state run by them, although 233 of these were leased from Malay chiefs.<sup>2</sup> These mines in Larut were so rich that in 1876 this district alone provided more than three-quarters of the state's annual revenue.<sup>3</sup> It was the opening of the large numbers of new tin fields in Larut that led to British political intervention in Perak. Subsequently, the Kinta Valley, which was also known for its tin deposits, began extensive mining in 1880. The large deposits there had overtaken Larut in tin production by 1889.<sup>4</sup>

<sup>2</sup>Chai Hon-Chan (1967), p.164.

<sup>3</sup>Ibid., p.19.

<sup>4</sup>Yip Yat Hoong (1969), p.60; Ryan, N. J. (1963). *The Making of Modern Malaya*, Kuala Lumpur: Oxford University Press, p.145.



The British direct involvement and the French investment in tin mining in Perak came only in the middle of the 1880s. During their early involvement, the majority of foreign companies failed to compete with the Chinese miners whose methods of prospecting and the simplicity and efficiency of their organisation favoured them. The high technical skills of European mining companies, superior mining techniques and well-trying business organisations in other colonies were not suitable for the easily accessible deposits in the Perak and Malayan mining environment. However, the depletion of these deposits and the introduction of the dredge in 1912 changed the production efficiency of the European companies.<sup>5</sup> The dredge allowed extraction of tin deposits that were not easily accessible and enabled the Western miners to make a successful 're-entry' into the industry by exploiting the technical deficiency and capital shortages of the Chinese. The land policy that gave preference to Western miners also helped the process.<sup>6</sup> From a mere contribution of 10% towards total production output in 1900, the European figure rose steadily and in 1929 reached 61%, thereby ending the Chinese domination in tin production.<sup>7</sup> In the mid-1920s, there were 32 dredges in operation in Perak,<sup>8</sup> and in 1935 the figure rose to 70.<sup>9</sup>

Tin continued to be the most sought after commodity and all the output was absorbed by the world market. However, by the late 1920s the situation began to change. Global

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<sup>5</sup>See Rex (1936), p.27.

<sup>6</sup>In Kinta, for example, from 1,916 (31,343 acres) mining leases reclaimed in 1921, 1,442 (29,400 acres) were re-alienated to European miners [Ravinder Singh, '*Keadaan Ekonomi Lembah Kinta Pada Masa Kemelesetan Ekonomi Dunia 1920-1922*', B.A Graduation Exercise, History Department, University of Malaya, 1994/95, p.29].

<sup>7</sup>Yip Yat Hoong (1969), p.164. These figures refer to those of the Federated Malay States. However, the scenario was also the same for Perak as the state was the largest tin producer in Malaya.

<sup>8</sup>Francis Loh in Ravinder Singh (1994/95), p.10.

<sup>9</sup>Rex (1936), p.30.

economic depression, violent tin price fluctuations and surplus production forced producing countries to sign an international tin agreement in 1931 to balance the production and consumption as well as protecting tin prices. Although the tin agreement did increase the price of tin to an acceptable level, the drawback was the limitation on production. Tin production in Perak was greatly affected as a result of this agreement.<sup>10</sup> The global success of this arrangement led to subsequent international agreements in 1934-36 and 1937-1941.

The Japanese occupation in Malaya during the Second World War delivered another blow to the tin industry in Perak.<sup>11</sup> In the great haste to retreat to Singapore, the British carried out a 'scorched earth' policy. Tin production for the state then was severely disrupted, as time was needed for rehabilitation. Even so, tin production in Perak run by Japanese companies continued on the average of about a third of the pre-war capacity of 1941.<sup>12</sup> The Japanese occupation too resulted in the displacement of thousands of Chinese labourers in the industry. After the war, when the British colonial government was reinstated, further rehabilitation was carried out.<sup>13</sup> In order to accelerate the process, financial aid was provided for both the Chinese as well as the European tin mining companies. Increased mechanisation was encouraged to confront the problem of labour shortages. By 1948, production had reached pre-war production levels and continued

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<sup>10</sup>See Tables 5.3.1 and 5.3.2 respectively.

<sup>11</sup>Along with rubber, it was the Japanese occupation policy that the production of both commodities were to fulfil Japanese demand and at the same time they wished to control the global market for tin and rubber; in both commodities Malaya's production had exceeded their domestic industrial needs, see Yoshimura Mako, 'Japanese Occupation and Economic Policy in Malaya' in *Jernal Sejarah*, No. 10, 2002, History Department, University of Malaya, pp.24-5.

<sup>12</sup>Francis Loh Kok Wah (1988). *Beyond the Tin Mines*, Singapore: Oxford University Press, p.58.

<sup>13</sup>Rehabilitation of both tin mines and rubber estates in Malaya was largely financed by the Japanese Reparation Fund [Yoshimura (2002), p.39]

almost consistently at that level until the end of the colonial period.<sup>14</sup> In 1953, a post-war international tin agreement took effect with several similar features to the pre-war agreements and this evidently helped protect the tin price and the economy of Perak.

The phenomenal development of the tin mining industry in colonial Perak was the result of three fundamental components: first, the existence of abundant tin deposits; second, the availability of imported labour and entrepreneurial skills; and third, the availability of both local and foreign capital. The future of tin was very much dependent on the rate of exhaustion of deposits, discovery of new mining areas, and the discovery of complementary materials. Conscious of the fact that tin was a wasting asset and that there was a need to diversify the state economy the colonial government turned their attention towards rubber as well.

Rubber was introduced into Perak in 1877 with the arrival of the first consignment of trees in Kuala Kangsar, which were planted in the garden of the Resident, Hugh Low.<sup>15</sup> Experiments were then carried out to ascertain the suitability of this new crop to the Malayan environment. Research centres were established and the findings were that the plants thrived under all conditions. Along with the growing world demand for rubber this marked the beginning of large-scale rubber planting in Perak and marginalised the interest in almost all other crops.<sup>16</sup>

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<sup>14</sup>See Table 5.3.2 in Section 5.3.

<sup>15</sup>Drabble (1973), p.4.

<sup>16</sup>The rapid increase in rubber planting can also be seen through the alienation of land in the Malay States. For a brief overview during the 1903-1910 period, see Drabble, J. H., 'Land Alienation and the First Rubber Boom in Malaya' in *Jurnal Sejarah*, Vol. II, 1972/73, History Society, University of Malaya, pp.23-8.

Many of the initiatives in the development of the rubber industry came from the encouragement by the colonial government and its deliberate policy. It was this industry that symbolized the cornerstone of the British agricultural policy,<sup>17</sup> though Perak was a latecomer in plantation agriculture. The first commercial planting in Malaya took place during the 1880s in Malacca and Selangor. The expected rush by the Europeans to plant rubber did not materialise due to the unattractive land tenure system which only offered short-term possession and no assurance of a continuous supply of labour; both at the lowest possible cost. To induce planters the colonial government decided to introduce new land policies, the most vital of which was the introduction of a system of negotiated titles in land. To deal with the slow response, the colonial government promoted further incentives that eventually instigated the land rush.<sup>18</sup> The planted rubber area within the state grew tremendously and from 1905 to 1906 alone the acreages more than doubled from 12,000 to 29,600 acres.<sup>19</sup> From then on, the growth of the rubber industry caused by the increasing world demand and liberal land policies was so rapid that by 1909 the state had 68,278 acres planted with rubber,<sup>20</sup> and 453,400 acres in 1922. It further increased to 540,700 acres in 1930, 589,100 acres in 1940 and towards the end of the colonial period, in 1953, stood at 608,000 acres.<sup>21</sup> During this period, Perak was second only to Johor in rubber acreages in Malaya, which in 1953 had 1,078,500 acres.

The interest in rubber planting attracted both capitalists and peasants. Although it was the plantation sector that first initiated rubber cultivation, the attractive income strongly

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<sup>17</sup>Lim Teck Ghee (1976), p.81.

<sup>18</sup>Drabble (1973), p.15; see fn.66 in Chapter 3.

<sup>19</sup>Ibid., p.48.

<sup>20</sup>Chai Hon-Chan (1967), p.155.

<sup>21</sup>Lim Chong Yah (1969), Appendix 4.4, p.330.

influenced peasant smallholders to divert their attention to rubber. Despite the barriers, both in terms of state policies as well as financial and organisational constraints towards their entry, the peasants managed to offer a strong challenge to the plantation sector, particularly in terms of acreage expansion. Following closely behind the plantation sector, the aggregate acreages for smallholders in 1953 exceeded those of the plantation sector (see Table 5.2.2). As a consequence of the continuous growth of this sector, the rush for land became very competitive among both the peasants and the plantations.

**Table 5.2.2 Perak: Rubber distribution and growth, selected years (acres)**

Year	1922	1930	1940	1953
Plantation sector	239,800	284,200	314,700	296,500
Smallholding sector	213,600	256,500	274,400	311,500
Total	453,400	540,700	589,100	608,000

Source: Collated from Lim Chong Yah (1969), Appendix 4.4, p.330

The great demand for land too had created widespread land sales and speculation, particularly among the Malays. While this activity could adversely affect the Malay landholding structure in the long run, it was also recognised as the contributory factor in the decline of padi land. The Malay Reservations Act amongst others was designed to confront this unhealthy situation.<sup>22</sup>

The rapid expansion of the rubber industry had been extraordinary. However, the failure of the world's rubber producers to match output to demand, which was fundamental in a capitalist enterprise, was obvious. The result was the introduction of the Stevenson Restriction Scheme<sup>23</sup> in 1922. This policy imposed a quota on rubber output with the sole intention of raising prices. The imposition of the scheme brought different impacts to the

<sup>22</sup>Drabble (1972/73), p.26-7.

<sup>23</sup>For a detailed discussion of this scheme and its impacts on rubber growers in Malaya, see Lim Teck Ghee (1977), pp.139-154.

plantations and smallholders. The scheme set a very low quota for the smallholders, which caused them to resort to other economic activities to alleviate financial hardship inflicted upon them.<sup>24</sup> The plantations, on the other hand, were not as badly affected. While the scheme failed to restore the plantation industry to its former position, it did restore the plantations' profits<sup>25</sup> by downsizing the operations that saw the laying-off of plantation workers. Another important consequence of the scheme embarked upon unilaterally by the British in Malaya and Ceylon (now Sri Lanka) had seen other non-restricting rubber-producing countries, particularly the Netherlands East Indies (now Indonesia) step up production and new planting which resulted in the weakening of Malaya's position in world rubber production.<sup>26</sup> The Stevenson Scheme was finally abolished in 1928. Six years later as a result of the world depression, an International Rubber Regulation Scheme was formulated and agreed upon by all rubber producing countries and was put into operation to raise rubber prices. This scheme, with its extensions, ended in 1942.<sup>27</sup>

Unlike tin mining, the development of the rubber industry was not monopolised by any particular ethnic group. Although initiated by the Europeans, the emergence of Asians in this sector was encouraging. Despite the limitation of freedom of the Malays in dealing in land, the discrimination against the early Chinese and Indians in rubber holdings, and the preference given to the Europeans, the total acreage held both by the Malays and other Asians continued to grow rapidly. Although accurate ethnic segregation cannot be

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<sup>24</sup>Ibid., p.143. Smallholders were restricted to a maximum output of 320 lbs/acre/year only. In 1923, this figure was revised to 425lbs/acre/year.

<sup>25</sup>Ibid., p.153.

<sup>26</sup>Lim Chong Yah (1969), p.77.

<sup>27</sup>Ibid., p.81.

made at this point as to the ownership of these holdings, the aggregate figures indicate a rapid increase. In 1907 the involvement of Asians in the Malayan rubber industry stood at 2,000 acres and in 1910 out of the 541,000 acres of rubber planted, 70% were owned by Europeans and 30% other ethnic groups.<sup>28</sup> By 1921 Asian holdings comprised 46% of the total acreage of 2,240,000 acres,<sup>29</sup> mainly Malays and Chinese. Since distribution figures by state are not available it can be deduced that Perak had a large portion of Asian-owned rubber holdings since the state was the second largest in rubber planting in Malaya. This trend continued until independence in 1957. Although the Second World War from 1941 to 1945 interrupted the development of rubber, the damage to the rubber industry was minimal. It lost only 4% of its planted acreage mainly due to the lack of upkeep of young rubber and also the destruction of mature rubber to provide land for food crops.<sup>30</sup> The development of the rubber industry was interrupted in the 1950s when there was a growing trend to use synthetic rubber among industrialised countries.

The key drivers that brought the transformation in the colonial economy of Perak relied on tin and rubber. During the economic expansion brought about by tin, extensive infrastructural projects, particularly related to the transport system, were carried out to facilitate the movement of tin. The initial development of rubber, therefore, was rapid due to the ready availability of transport, and further development only served to smooth the production progress of these commodities. At the same time, the capitalist economy had

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<sup>28</sup>Drabble (1972/73), p.27.

<sup>29</sup>Drabble (1973), p.216.

<sup>30</sup>Mackenzie (1952), p.25.

Under Japanese occupation, an association comprising the government and private companies was set-up to manage rubber estates in Malaya under unified control. In Perak, for example, Showa Gomu K. K. was allotted 253,000 acres under this arrangement. [Yoshimura (2000), pp.28, 32]

gradually brought changes to the values and perspectives of the population. Subsistence production was no longer preferred and they were forced to adapt to changes to survive in the new economy. However, although economic opportunities were available, most of these were 'restricted' as the majority of the population either did not have the capacity to seize such opportunities or were restrained by state policies.

As in tin mining, the fundamental economic components of rubber cultivation - land, labour and capital - were the driving force of the industry in Perak. Of utmost importance too was the global market capacity of these commodities. It is in this light that we now turn to the demand and export of these commodities during the colonial period.

### **5.3 Demand and export of tin and rubber during British rule**

An interesting aspect of both these commodities was that the main consuming countries – United States, Great Britain, France and Germany – produced either little or none at all of these commodities while the major producing countries were almost totally dependent on them. From a geographical perspective, the producers were located in the tropics where the majority were underdeveloped Western colonies and dependencies, while the consumers were located in the developed industrial countries of the temperate regions. Perak as the producer of both commodities fitted well into this pattern.

In the case of tin, the driving force that encouraged its production was the increase in both the prices and demand from consuming countries. In the European markets, the average price of tin in 1881-85 was £91 per ton, which increased to £127.30 per ton in



1901-5, and in 1951-5 stood at £846.60 (see Table 5.3.1). The price trend particularly after 1900 was very encouraging except for a brief period in the 1930s when the price dropped below the £200 mark. This was due to the impact of the world economic depression, although the consumption during this period did not show much variation.<sup>31</sup> The wide variety of industrial use of tin as well as the global volume of industrial activities increased and, therefore, so did the demand and price for the commodity. The technological changes that came about also influenced the manner in which tin was consumed. By 1928, Western industrialisation had seen world consumption of 169,000 tons, more than double that of 1900.<sup>32</sup> After 1928, except for 1929 and 1937, world consumption had seen a decreasing trend and by 1957 the consumption had decreased by about 15% and stood at 143,000 tons. Technological progress had allowed the increased use of substitute materials as well as economising on the use of tin.

**Table 5.3.1 Five-year average tin prices 1881-1955**

Year	Price	Year	Price
1881-1885	£91.00	1921-1925	£207.40
1886-1890	£102.80	1926-1930	£230.70
1891-1895	£80.40	1931-1935	£181.00
1896-1900	£87.60	1936-1940	£223.90
1901-1905	£127.30	1941-1945	£283.50
1906-1910	£155.30	1946-1950	£530.40
1911-1915	£183.80	1951-1955	£846.60
1916-1920	£260.60		

Source: Collated from Yip Yat Hoong (1969), p.147 Table II-5; p.11 Table 0-1

Note: Price per ton basis.

With the increasing prices and the continuous high consumption of tin, Perak's contribution towards meeting global demand was enormous. During the colonial period, the production of tin in the state was entirely for export as internal industrial tin

<sup>31</sup>See Yip Yat Hoong (1969), Appendix 2, p.394.

<sup>32</sup>Ibid.

consumption was virtually non-existent. From a small production of 657 tons in 1874 the export of tin for Perak had increased more than 32-fold at the turn of the century; the figure doubled to 44,600 tons in 1929 and stood at 36,100 tons in 1957 (see Table 5.3.2). Since the 1880s, Perak tin production had contributed about half of Malaya's production and further increased to two-thirds of national production in the late 1920s. In terms of world production, the state produced only 1.8% in 1874 and the production expanded so fast that by 1894, Perak produced 26.5% of world production. The state maintained this domination, producing more than a quarter of the world's tin for the next 15 years before declining slightly, but it still remained as a major world tin producer. The consequence of the international tin agreements implemented since 1931, aimed at prohibiting excessive production and restraining severe tin price fluctuations, began to affect tin production in Perak. Production and export for the following year fell to 17,200 tons, almost a drastic 60% drop from 1930. Perak's tin production and export did not recover well for the next 15 years due to the restrictions, and the Second World War made the conditions worst. After the war rehabilitation programmes carried out by the colonial government showed a positive recovery; from 1948 until the end of British colonialism Perak was once again producing a fifth of the world's tin.

The rapid expansion of the tin mining industry in Perak, which initially was made possible by the settled political conditions in the state, was further supported by the continuous demand from the industrialised countries. The list of the consuming countries expanded as more countries from both the East and West became industrialised. The

**Table 5.3.2 Perak, Malaya and World tin production, 1874-1957 (thousand tons)**

Year	Perak	Malaya	World	Perak/World (%)	Year	Perak	Malaya	World	Perak/World (%)
1874	0.6	4.2	36.4	1.8	1916	27.2	47.2	119.0	22.9
1875	1.8	8.6	41.6	4.2	1917	24.6	42.9	119.0	20.7
1876	2.3	9.5	40.2	5.6	1918	23.0	40.1	116.0	19.8
1877	2.9	3.0	36.0	8.0	1919	21.9	39.2	113.0	19.4
1878	3.5	7.9	45.9	7.5	1920	21.9	36.9	112.0	19.6
1879	4.1	9.9	47.8	8.6	1921	21.0	36.2	110.0	19.1
1880	5.2	11.7	47.7	11.0	1922	21.8	37.2	114.0	19.1
1881	6.0	11.4	48.7	12.4	1923	24.7	39.4	118.0	20.9
1882	7.2	11.7	49.8	14.5	1924	29.8	46.9	135.0	22.1
1883	9.5	17.0	54.1	17.5	1925	30.7	48.1	137.0	22.4
1884	10.2	17.5	53.0	19.2	1926	30.7	47.8	137.0	22.4
1885	9.7	17.3	54.4	17.8	1927	36.3	54.4	153.0	23.7
1886	11.0	19.7	57.9	19.0	1928	41.1	64.5	171.0	24.0
1887	12.9	24.0	62.8	20.5	1929	44.6	70.0	189.0	23.6
1888	13.0	23.9	61.6	21.2	1930	41.7	65.0	172.0	24.2
1889	13.5	26.5	65.6	20.5	1931	34.1	53.1	138.0	24.7
1890	14.1	27.2	65.9	21.4	1932	17.2	27.8	92.0	18.7
1891	14.4	32.4	68.5	21.0	1933	15.0	23.9	80.0	18.8
1892	16.5	34.3	72.2	22.9	1934	22.3	36.2	112.0	19.9
1893	18.9	39.9	76.8	24.6	1935	25.0	40.8	129.0	19.4
1894	23.0	47.7	86.7	26.5	1936	39.0	64.7	170.0	22.9
1895	24.0	50.0	90.2	26.6	1937	44.9	75.1	195.0	23.0
1896	22.8	48.5	84.4	27.0	1938	25.0	41.2	152.0	16.4
1897	20.9	44.1	81.0	25.9	1939	26.5	44.6	155.0	17.1
1898	19.7	41.2	78.6	25.1	1940	49.0	80.7	223.0	22.0
1899	19.0	39.0	75.3	25.2	1941	36.6	60.3	238.0	15.4
1900	21.2	43.1	85.0	24.9	1942	10.7	15.7	115.0	9.3
1901	22.9	47.5	92.5	24.8	1943	17.2	26.0	134.0	12.8
1902	24.2	47.3	88.7	27.2	1944	6.1	9.4	97.0	6.3
1903	26.0	50.8	93.9	27.7	1945	2.2	3.1	86.0	2.6
1904	26.4	51.7	95.6	27.6	1946	5.2	8.4	87.0	6.0
1905	26.6	51.0	98.9	26.9	1947	17.9	27.0	108.0	16.6
1906	25.9	48.7	102.6	25.3	1948	29.4	44.8	146.0	20.1
1907	25.7	48.5	101.7	25.2	1949	34.2	54.9	157.0	21.8
1908	27.8	50.9	108.5	25.7	1950	36.4	57.5	162.0	22.5
1909	27.5	50.8	115.0	23.9	1951	34.3	57.4	162.0	21.2
1910	25.1	45.9	115.7	21.7	1952	35.0	57.1	165.0	21.2
1911	26.0	47.5	116.3	22.4	1953	34.5	56.4	170.0	20.3
1912	28.4	50.0	124.7	22.8	1954	37.6	60.9	169.0	22.2
1913	29.4	51.4	133.8	22.0	1955	37.7	61.2	168.0	22.4
1914	28.6	50.6	124.1	23.0	1956	38.3	62.3	166.0	23.1
1915	27.8	50.0	128.0	21.7	1957	36.1	59.3	163.0	22.1

Sources: Wong Lin Ken (1965), Appendix A(c) &(d), pp.246-9; Jomo (1990), Appendix Table 1 & 6, pp.78-9, 89; Yip Yat Hoong (1969), Appendix 1, pp.392-3; Lim Chong Yah (1969), Appendix 2.1, p.319.

Note: Figures from above sources have been rounded to nearest 1000 tons.

increased demand for tin was also the result of global population growth that demanded more consumer products, the recovery and expansion of the world economic order, and the important strategic demand for stockpiling, particularly among the main consuming countries.

As with tin, the planting of rubber was primarily motivated by the attractive prices and the demand from world markets. It was reported that between 1905 and 1906, the average price of rubber had more than doubled from 61 cents to \$1.50 per pound.<sup>33</sup> However, in later years the price of rubber had been on the decline and never matched the 1906 price again except in 1951 (see Table 5.3.3). Ironically, the planted acreage in the state kept growing and the plausible explanation is that, although prices were declining, in most years these were deemed as still attractive.<sup>34</sup> Other apparent reasons were the fact that rubber cultivation does not require as much attention as compared to some other crops, and the short hours of daily work in the smallholdings had made rubber cultivation an appealing income-generating activity.

Between 1908 and 1912, Perak produced a total of 8,904 tons of rubber beginning with 196 tons in 1908 and the output was more than doubled every year.<sup>35</sup> As with tin, the majority of the rubber produced in the state was for export, as local use was very limited. Although a continuous state-by-state breakdown for rubber production during the period

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<sup>33</sup>Jomo (1988) p.181.

<sup>34</sup>Dun J. Li (1955), pp.61-2 mentions that the first two decades of the twentieth century had seen returns from rubber cultivation as extremely good so that British rubber companies were able to pay dividends as much as 300% while average dividends stood at 68.8%.

<sup>35</sup>Lim Teck Ghee (1977), p.96 fn.12. Figures are to be regarded as approximations only since data provided by three separate relevant authorities do not tally.

**Table 5.3.3 Rubber prices 1918-1957 (cents/lb.)**

Year	Price	Year	Price	Year	Price
1918	64.3	1929	34.6	1947	37.3
1919	80.7	1930	19.1	1948	42.1
1920	75.7	1931	9.8	1949	38.2
1921	31.1	1932	7.0	1950	108.2
1922	28.8	1933	10.2	1951	169.5
1923	51.2	1934	20.6	1952	96.1
1924	49.0	1935	20.2	1953	67.4
1925	114.0	1936	27.0	1954	67.3
1926	80.5	1937	32.1	1955	114.2
1927	64.3	1938	24.1	1956	96.8
1928	36.8	1939	31.0	1957	88.7

Source: Jomo (1988), Table 7.1 pp.181-2

Note: Prices based on ribbed smoked sheets (RSS).

is not available, the aggregate production for the FMS indicates the importance of the commodity to the state since Perak already had the largest acreage of rubber land in the 1920s in the FMS.<sup>36</sup> Comparing the FMS against the world natural rubber production uncovers an interesting relationship (see Table 5.3.4). In the decade of the 1920s, the FMS was already contributing more than a quarter (26.1%) of the world's natural rubber production.<sup>37</sup> A decade later, the figure slightly declined to 25.1% due to the aggressive rubber cultivation schemes initiated by the Dutch East Indies government.

**Table 5.3.4 FMS production, World production and consumption of natural rubber, 1920s-1930's (tons)**

Decade	FMS production	World production	World Consumption	FMS/World production
1920's	1,350,000	5,173,000	5,480,000	26.1%
1930's	2,244,600	8,943,000	9,520,000	25.1%

Sources: FMS data collated from Lim Teck Ghee (1977) Appendix 4.2, p.254; World production data from A. McFadyean (1944) in *Ibid.*, Appendix 4.1, p.253; World consumption data from Lim Chong Yah (1969) Table 3.3, p.92.

The early development of rubber during the first decade of the twentieth century had seen heavy planting taking place in many parts of the world, including Malaya. It was reported

<sup>36</sup>In 1922, Perak had 453,400 acres of rubber overtaking Selangor, which had 417,500 acres. Since then Perak had been the leader in the FMS [Calculated from Lim Chong Yah (1969), Appendix 4.4, p.330]. Nationwide, Johor had the largest area for rubber cultivation.

<sup>37</sup>During this period, the FMS contributed 57% of the total Malayan natural rubber production..

that during the 1910s alone global rubber production had increased 27 times and that rubber prices had eventually decreased by more than 80%;<sup>38</sup> this was the beginning of severe price fluctuations in natural rubber. Although the demand for natural rubber had increased tremendously, particularly in the United States where automobile production had increased by sixteen-fold during the period,<sup>39</sup> the world markets were not able to absorb the entire surplus. The data presented in Table 5.3.4 therefore include the voluntary curtailment of production by rubber producers with the Stevenson Restriction Scheme of 1922-28 and a second restriction scheme introduced in 1934. These schemes also explain why global production was able to follow the demand rather closely. Although matching the global supply to the demand of rubber seemed to be effective, the attempt to secure price stability, which was crucial to producers, was not as successful. During the 1929-33 period, for example, the FMS produced an average of 248,060 tons<sup>40</sup> of rubber annually but the drastic drop in prices (see Table 5.3.3) during those years caused the rubber export revenue for the FMS to plummet from a high of \$202 million to the lowest of \$37 million.<sup>41</sup> However, during the late colonial period there were increases in the rubber price that greatly benefited Perak's export revenue. But, while the 1940s saw industrial countries begin stockpiling, which obviously increased the demand for rubber, the 1950s was dominated by the increased use of synthetic rubber. Despite the presence of a formidable substitute, the superiority of natural rubber in the manufacture of specific products not only increased the demand for the commodity but also encouraged rubber producers to replant old low-yielding rubber trees. The exploitation of

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<sup>38</sup>Lim Chong Yah (1969), p.75.

<sup>39</sup>Ibid.

<sup>40</sup>Calculated from Lim Teck Ghee (1977), Appendix 4.2, p.254.

<sup>41</sup>Ibid., fn.2, p.216.

tin and rubber brought economic progress to the state in general but the impact on the peasantry presents a different picture.

#### **5.4 Impact of tin and rubber on the peasantry**

The impact of the exploitation of tin and rubber on the peasantry occurred at two different phases and had slightly different consequences. The exploitation of tin was already taking place when the British intervened in Perak. Although three years later the colonial government introduced rubber, it was about two-and-a-half decades later that this commodity began to have a considerable impact on the peasantry.

The considerable involvement of the Malay peasants in the tin mining industry was limited to the early decades of the 19<sup>th</sup> century.<sup>42</sup> Even then, it was carried out on more of a part-time basis and whenever their farming activity, particularly rice cultivation, allowed them. From the 1840s, the Chinese immigrants had begun to replace the Malay peasants as suppliers of tin in Perak.<sup>43</sup> The rapid growth of tin mining also inevitably put pressure on the peasants' agricultural activities and gave rise to conflicts between tin-miners and rice cultivators.<sup>44</sup> Of primary concern, was the disruption of padi irrigation that saw waste and residues from tin mines getting into the system and damaging padi growth. Padi production was therefore much affected, which in turn had an effect on the

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<sup>42</sup>This does not mean that Malay involvement, including as owners, in tin mining had disappeared altogether in the later years. In 1892, for example, a mine in Batu Gajah owned by Siti Raja, a Malay, employed more than 1,000 labourers, mainly Chinese. [Sanusi Samid, 'The Development of Tin Industry in Perak 1880-1910', B.A. Graduation Exercise, History Department, University of Malaya, 1966, p.4]; and in 1935, out of a total labour force of 32,596 in the state tin mining industry, 1,655 (5.1%) were Malays. [Rex (1936), p.29]

<sup>43</sup>The encouragement to recruit foreign labour came from state dignitaries who were also the mine-owners. [Winstedt, R. O. and Wilkinson, R. J., 'History of Perak', in *JMBRAS*, 12(1), 1934, p.78]

<sup>44</sup>See Lim Teck Ghee (1977), pp.46-9.

already low income of the peasantry. It was only when the Perak Mining Code was enacted in 1895 that prevention of pollution to water supplies was introduced, along with the segregation of tin mining operations and agricultural areas.<sup>45</sup>

During the late 19<sup>th</sup> century, the peasants' perception towards wage employment started to change. This was particularly so in the districts where tin mining and rice cultivation co-existed. Economically, rice cultivation on its own without any government assistance was generally unprofitable, which encouraged a shift in the peasantry towards wage employment in the tin mining industry. Working as wage earners and buying rice was deemed to be easier than cultivating it. The introduction of rubber further encouraged the trend. Districts such as Kinta and Batang Padang saw rice fields severely neglected and abandoned.<sup>46</sup> While this trend indicated the peasants' willingness to adapt to changes, the negative side was that the transformation of the peasantry took place at the expense of the rice cultivation industry.

The existence of potentially stanniferous land in tin mining districts was yet another factor affecting peasants. The rapid growth of the tin industry necessitated the search for new lands to mine. Competition for land for both agricultural purposes and tin mining became more aggressive. In their eagerness to either commence or expand operations capitalists were also always on the lookout for potential land to purchase for rubber

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<sup>45</sup>Teoh Kah Heng, '*Transformasi Gunatanah Perlombongan Bijih Timah di Daerah Kinta 1966-1995*', B.A. Graduation Exercise, Department of Geography, University of Malaya, 1996, p.5.

<sup>46</sup>By 1952, Kinta had only about 500 acres of padi land still in production while Batang Padang had almost wiped out her rice industry from 18,300 acres in 1920 to about 100 acres in 1952. See Table 4.5.2 in Section 4.5 for Perak's rice distribution acreages.



cultivation.<sup>47</sup> The lure of attractive prices offered often induced the peasants to part with their land<sup>48</sup> and unless agriculture was exceptionally productive, the Perak Mining Code allowed such land to be withdrawn by the state and re-alienated for tin mining.<sup>49</sup>

The conflict between the miners and the peasants and suppression by the former of the latter appeared to reduce over time. An important contributory factor was the advent of rubber planting in the state. Although initially the peasants saw rubber as an industry beyond their reach as it was promoted as an alien, large-scale, intrusive activity, the peasants eventually realised its advantages. Unlike tin mining, which is highly capitalised, rubber does not require much initial investment and the amount of capital required is very much dependent on the size of the cultivation plot.

The impacts of rubber on the peasantry therefore contrasted with those of tin mining, though in both industries the peasants were never encouraged by the state to play a major part.<sup>50</sup> Participation in the rubber industry was limited and indirect such as the award of short-term contracts in felling and clearing of virgin areas for planting. While it is true that some attempts were made to encourage rubber cultivation among peasants whereby the state, through the FMS administration, allocated \$25,000 for loans in the agricultural

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<sup>47</sup>For example, the huge number of sales of potential land for tin mining and rubber cultivation by the peasantry had caused them to be marginalised and to be moved further away from urban areas. [Shamsuddin Mohd Nor, '*Tinjauan Ringkas Sejarah Kampar*' in *Jernal Sejarah*, Vol. 13, 1974/74/76, Kuala Lumpur: Historical Society, University of Malaya, pp.10-11]

<sup>48</sup>In Batu Gajah stanniferous agricultural land was offered between \$500 and \$1,000 an acre towards the end of the 19<sup>th</sup> century. [Lim Teck Ghee (1977), fn.93, p.65]

<sup>49</sup>*Ibid.*, p. 48.

<sup>50</sup>For colonial policies which hindered the expansion of the peasants in the rubber industry between 1876 to 1941, see Radhakrishnan, P. (1974). 'The Role of Rubber in the West Malaysian Economy', PhD. Thesis, Stanford University, pp.43-53.

sector, the response was low due to red tape in the processing of the loans by the state.<sup>51</sup> Most peasants did not have collateral to offer, and those who did had it under-valued.

In the early stages of rubber development, some colonial officers expressed their reservations and even a critical attitude towards rubber planting not only by peasants but also by all non-Europeans. Although the bias was not in any way linked to any deliberate policy to deter peasant participation in rubber cultivation, other policies were devised to prevent peasant rubber enterprises from expanding.<sup>52</sup> The rationale was that peasants had insufficient capital to undertake projects that required four or five years after initial planting before tapping, and they lacked the expertise. To add further to the discrimination towards the peasantry, the colonial government agreed to the demand of the United Planters Association (UPA) of the FMS not to alienate any road-frontage land to peasants. This decision forced peasants to incur additional costs to transport their produce.

Attempts to deter peasant participation in rubber cultivation can also be seen in the fee charged for land ownership as compared to foreign capitalists in the preference for rubber rather than rice cultivation. In Krian, the peasant rice cultivator had to pay 40 cents in quit rent and a premium of \$3.00 per acre or alternatively 60 cents per acre without premium.<sup>53</sup> In contrast, for rubber cultivation, the planters were offered free rent for the first two years and subsequently 20 cents quit rent thereafter or alternatively a lump sum

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<sup>51</sup>Although it was reported that the reason was the preference of peasants to borrow from Indian *chettiar* moneylenders, it was also due to the delays in processing loans, under-valuation of collateral and the limitation of loans for agricultural purposes. [Drabble (1973), p.61]

<sup>52</sup>Lim Teck Ghee (1977), p.76.

<sup>53</sup>Ibid (1976), p.51.

payment of \$3.00 per acre on premium with no subsequent rent.<sup>54</sup> The peasants thus should have pursued rubber cultivation instead since rubber land rents were much lower than the padi land. There was, however, an obstacle whereby the rubber rent stipulated a minimum of 500 acres to enjoy such benefits. This was thus obviously affordable only by the foreign planters.

Despite all the restrictions and barriers, the acreage of smallholding rubber continued to grow. The response was so great that land applications in the state had to be closed in 1919.<sup>55</sup> The rush for land too had created a new activity; sale of land by Malay peasants to non-Malays, including to estates. Although the sale was perfectly in line with the principles of economic liberalisation, its scale, however, would have disastrous implications for the peasantry.<sup>56</sup> To curb such practices and prevent the Malay peasantry from becoming landless the Malay Reservation Act of 1913 was implemented. This Act came with a heavy price for the peasantry. What started as a means of protection against the disposal of land by the Malays turned into a restriction on cultivation rights where it was forbidden to cultivate rubber as well. This resulted in dissatisfaction among the smallholders who were mainly peasants. With the Act in place peasant land carried a lower market value than it otherwise would.

The Stevenson Restriction Scheme imposed in 1922 to control the fluctuating price of world rubber also had a considerable impact on the peasantry. The restriction scheme that

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<sup>54</sup>Drabble (1973), p.15; *PGG 1891*, p.419.

<sup>55</sup>Lim Teck Ghee (1977), p.117.

<sup>56</sup>For land sale statistics, see *Ibid.*, p.115; Drabble (1973), p.102.

imposed too low a quota<sup>57</sup> for rubber smallholdings severely affected their income, which inevitably forced them to resort to other economic activities. Although the rubber industry was never intended for the peasantry on any scale, the attractive prices and the possibility of profit proved too much to resist. In 1921, the total area alienated for smallholdings in Perak already stood at 241,654 acres.<sup>58</sup> The interest among smallholders further increased, and between 1926 and 1930 the state received 22,629 applications totalling 90,435 acres for rubber land of which 4,927 applications totalling 16,777 acres were approved.<sup>59</sup> The extent of smallholder rubber planting in the last four decades of British colonialism in Perak can be seen in Table 5.2.1 earlier where between 1922 and 1953 the smallholders' share of the planted acreage had increased by almost 46% from 213,600 acres to 311,500 acres, providing a strong challenge to the estates. Towards the end of the colonial period, the resilience of the ever-growing peasants' participation in the rubber industry had forced the government to change their view to provide protection for peasant rubber-planting activities.

These changes had made the peasantry more responsive and adaptable, and forced them to compete in the new capitalist economy despite their lack of capital and expertise. From being a minor player during the early development of rubber, they emerged as a powerful competitor with a substantial advantage over the estate sector, which they managed to surpass. However, the 'modernisation' of the peasantry could have been

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<sup>57</sup>Smallholders' production quota was set at 320 lbs. per acre per year but later raised to 425 lb. per acre per year. This was against their normal production of between 733-1,200 lbs. per acre per year. [Lim Teck Ghee (1977), pp.145-6]

<sup>58</sup>Ibid., fn.53, p.175.

<sup>59</sup>Ibid., fn.52. Within the FMS the number of rubber land application from Perak was the highest.

more significant by the end of the colonial period had state legislation and policies been more peasant-friendly.

## **5.5 Mining land and estate ownership in Perak**

In exploiting both tin and rubber in Perak, there were two important consequences for land use: one was the problem of economically unproductive ex-mining land and secondly, the liberal land policies adopted by the colonial government whereby large tracts of land were alienated to foreign capitalists at the expense of the peasantry. Although in pursuing economic progress the deforestation of state land was recognised and accepted as inevitable, large areas were rendered unusable with a very long period needed for rehabilitation. The emphasis on tin mining industry had always been focused on productivity in terms of output rather than acreage of land attributed to it, and therefore the early records are rather sketchy. The earliest available figure shows that in 1889 a total of 11,995 acres had been alienated for tin mining purposes in the state (see Table 3.6.1).<sup>60</sup> In the next 13 years, the increase in the acreage averaged about 8,500 acres a year so that by 1902 land alienated for tin mining totalled 122,514 acres.<sup>61</sup> In 1931, the acreage fell to 112,151 acres.<sup>62</sup> No statistics were found for the years approaching the end of British colonialism but the first land use report of independent

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<sup>60</sup>*PGG 1890*, p.480.

<sup>61</sup>*PGG 1903*, Appendix C, p.28.

<sup>62</sup>Lim Teck Ghee (1977), Appendix 8.1, p.259.

Malaya in 1966 gave a figure of 73,401 acres in tin mining in Perak.<sup>63</sup> Despite the patchy data, some inferences can still be made.

It was a normal practice in the mining industry that once tin had been extracted the land would be left abandoned, as it would no longer be suitable for cultivation. The impact towards abandoned tin mining land was realised and made known as far back as 1895 when Swettenham remarked that

we [the government] give to the miners what is often fine land covered with magnificent forest, and when he has destroyed the timber he turns the soil upside down and after a few years abandons it, leaving huge stretches of country of sightless waste of water-holes.<sup>64</sup>

Proper rehabilitation initiatives were never carried out, as it was not in the financial interest of the colonial state nor the capitalists. Although it could be argued that the total acreage utilised in the exploitation of the state's tin resources was small in comparison to the state's 5.2 million acres, most mining areas were located along the central plain where population was concentrated. Where productive land had fast become a commodity of high demand, the existence of unusable land raised dissatisfaction among the peasantry. Furthermore, some of these land areas were formerly theirs but were taken back by the colonial government, since they were either left idle or under-exploited, and redistributed in large parcels to European capitalists<sup>65</sup> for mining activities. The problem could have been more severe had not the colonial government occasionally decided to cease mining

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<sup>63</sup>Siew Kam Yew (1970). *The Present Land Use of Perak*, Present Land Use Report No. II, Ministry of Agriculture and Co-operative, Malaysia; Wong, I. F. T. (1974). *The Present Land Use of Peninsular Malaysia*, Volume I, Ministry of Agriculture, Malaysia, p. 394.

<sup>64</sup>PGG 1895, p.371.

<sup>65</sup>Yip Yat Hoong (1969), p.52.

land applications and at the same time enforce a more stringent policy on resuming mining operations on land, wholly or partially worked.<sup>66</sup>

The data presented above too do not reveal the actual acreages affected by tin mining as they only cover areas supposedly actively mined. Furthermore, licenses for tin mining were granted for between one to twenty-one years, and in special cases a longer period.<sup>67</sup> Upon expiration of these licenses, the land reverted back to the state. The actual unproductive land, as a result of tin mining activities, was therefore much greater than that reported. During periods of downturn in the tin industry when laying-off of labour was common, it was difficult to utilise the land for agricultural activities such as market-gardening.

While the tin mining industry did not involve active participation of the indigenous peasantry on any scale, the advent of rubber, which did not require much additional skill and knowledge, suited agriculturalists. However, the colonial government's policy of encouraging and preserving the plantation sector dominated by Europeans provided them with a head start in the industry. Prior to the introduction of rubber in Perak in 1897, the state already had 76 estates totalling 71,636 acres<sup>68</sup> for the cultivation of sugar, coffee, and gambier (see Appendix 1). Ownership in terms of total acreages comprised 56% European, 39% Chinese, 1.4% Malay, 0.4% Indian, and the balance others. At this stage alone, the domination of foreigners in the overall agricultural sector stood at about 31%

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<sup>66</sup>Wong Lin Ken (1965), p.174.

<sup>67</sup>Ibid., pp.53-6.

<sup>68</sup>Lim Teck Ghee (1976), pp.161-2.

of total agricultural acreage alienated by the state<sup>69</sup> and justified the concerns of the peasantry.

There are difficulties in tracing the early development of rubber estate ownership in Perak because of inadequate statistical data. However, it is still possible to make some observations on the changes in rubber estate ownership in Perak. As of 1920 there were 35 estates operating in Kinta alone (see Table 5.5.1). In the Rubber Census of 1921, it was reported that the state had 231,893 acres of planted rubber in the estate sector<sup>70</sup>, which had increased to 298,154 acres in 1934.<sup>71</sup> Details of ownership of these estates are not available but since it was a phase where extensive development by capitalists took place, it is likely that the ownership of these estates would not differ much from those in earlier times when the Europeans, followed by the Chinese, owned the majority. The increasing trend of ownership did not affect the peasantry to any great extent. Important changes, however, only took place during the 1950s when Europeans began to relinquish their holdings mainly to the Chinese.

In 1937 there were 441 rubber estates operating in Perak with 52% owned by the Europeans, 26% Chinese, 19% Indian, and the balance owned by others including the non-European Western owners (see Table 5.5.2). While the participation of the Chinese and the Europeans was anticipated, the emergence of a high percentage of estate ownership among the Indians was quite surprising. It is not known whether any of the

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<sup>69</sup>Ibid.; The total agricultural land alienated by the state in 1897 was 231,691 acres (*PGG 1898*, p.432); see also Table 3.6.1.

<sup>70</sup>1921 Census of Rubber Area, FMS in Lim Teck Ghee (1977), fn.53, p.175.

<sup>71</sup>Grist (1936), p.74.



estates were owned by Malays as they were categorised under the 'others' column. Ten years later, the changes began to be more far-reaching.

**Table 5.5.1 Perak: Estates in Kinta District, 1920**

No.	Name of estate/proprietor	Location
1	Ashlett (H.A. Hope)	Ipoh
2	Au Kong	Tg. Rambutan
3	Balarajah (A.E. Clough)	Batu Gajah
4	Batu Dua & Ridhuan	Batu Gajah
5	Cannng Estate	Ipoh
6	Chan Hin Estate	Ipoh
7	Chien Sein Lion	Ipoh
8	Changkat Meru Rubber Estate Ltd.	Ipoh
9	Changkat Kinding	Ipoh
10	Changkat Tualang Estate	Kota Bharu
11	Chemor United Rubber Estate Ltd	Chemor
12	Chung Ah ming & Lim Sin Chew	Ipoh
13	Chendreng Estate	Batu Gajah
14	Chumor Estate	Chemor
15	Chew Boon Juan	Kg. Kepayang
16	Chan Shan Estate	Kampar
17	Choong Lam Estate	Kampar
18	Changkat Melintang	Gopeng
19	Dusun Bertam Estate	Ipoh
20	Dusun Besar Estate	Ipoh
21	Erikson R	Telok Anson
22	Gunung Kroh Rubber Syndicate	Kg. Kepayang
23	Gunung Panjang Estate	Ipoh
24	Gunung Pari Estate	Ipoh
25	Gunung Rapat Estate	Ipoh
26	Gunung Panjang Estate	Chenderiang
27	Harewood Rubber Estate Ltd	Batu Gajah
28	Haji Mohd Yusul b. Ramal Estate	Gopeng
29	Hill Rise Estate	Batu Gajah
30	Hopeland Estate	Ipoh
31	Hew Ho Poew	Ipoh
32	Kepayang Estate	Ipoh
33	Kantan Estate	Ipoh
34	Kinta Kellas Estate	Batu Gajah
35	Klian Kellas Ltd	Batu Gajah

Source: Ravinder Singh, 'Keadaan Ekonomi Lembah Kinta Pada Masa Kemelesetan Ekonomi Dunia 1920-1922', Academic Exercise, History Department, University of Malaya, 1994/95, p.32.

**Table 5.5.2 Perak: Rubber estates planted acreage and ownership,  
1937 & 1947-51**

Year	Europeans		Chinese		Indians		Others		Total	
	No.	Acres	No.	Acres	No.	Acres	No.	Acres	No.	Acres
1937	230	254,901	113	28,660	82	20,588	16	3,196	441	307,345
1947	210	235,869	115	29,695	84	19,873	8	1,701	417	287,138
1948	207	240,332	114	29,047	83	19,485	7	1,399	411	290,263
1949	200	242,404	117	29,861	88	21,265	7	1,400	412	294,930
1950	190	241,203	124	31,183	84	20,085	7	1,369	405	293,840
1951	170	231,613	143	39,872	80	19,708	7	1,369	400	292,562

Sources: Department of Statistics, *Malaya: Rubber Statistics Handbooks*, 1938 & 1948-52.

Beginning in 1948 European estate ownership began to dwindle. While the decline in European ownership was more gradual in the decade 1937-1947 with an average of two estates a year, the next five years saw a substantial average decrease of eight estates a year. This saw European estate ownership in Perak at 170 in 1951. Further decline followed, and statistics for 1960 and 1961 show European ownership at 100 estates.<sup>72</sup> The large reduction of estates of European ownership within the final two decades of colonial rule deserves some explanation. Was it because Pax Britannia was anticipated to end soon? It is evident that the decline in European ownership was faster in the years approaching independence. The decisions by capitalists to replace rubber with oil palm, another export crop that had begun to be in demand on the world market during the period, also contributed to the decline. Although oil palm had been introduced at about the same time as rubber, it was not seen as a viable economic crop then as it demanded an expensive technology to process the fruit. In 1951, Perak had 32,300 acres of estates planted with this crop.<sup>73</sup>

<sup>72</sup>Department of Statistics, *Malaya: Rubber Statistics Handbook 1962*, p.11.

<sup>73</sup>Lim Chong Yah (1969), Table 5.6, p.139.

When the European owners were keen to part with their estates, the Chinese who had the capacity to raise capital took the opportunity. Chinese estate ownership did not change much from 1937 to 1947 but then saw a rapid increase from 115 estates to 143 estates in the next five years. This was an evidence of the change in ownership from the Europeans to the Chinese. A further indication of the trend is shown in the data for 1960 and 1961, although categorisation is limited to Europeans and Asians only.<sup>74</sup> Indian rubber estate ownership did not, however, show any major changes despite controlling about a fifth of estate ownership in the state in 1937. Overall, the number of estates operating in Perak had declined from 441 in 1937 to 400 in 1951.<sup>75</sup> Apart from the changes of ownership from the Europeans to the Chinese, the decline in the number of European estates was also due to amalgamation of estates to achieve higher efficiency in production.

At the end of colonial period what was left in the state, particularly the large tracts of ex-mining land and the changing green landscape filled with rubber trees, demonstrate the scale of exploitation of the state's primary resources, largely to the benefit of foreign capitalists. Along with it was the establishment of institutions and infrastructural facilities necessary to expedite the exploitation programmes and to advance the standard of living of the population. While tin and rubber provided the revenue for state development, it also allowed a massive outflow of profits. Whether the provision of the established institutions and the infrastructural facilities was the 'price' paid by the indigenous population for allowing the exploitation of the state's primary resources depends on one's

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<sup>74</sup>In 1960 European rubber estate ownership stood at 100 estates while Asian ownership at 290 estates. [Department of Statistics (1962), p.11]. Comparing these figures with those of 1951 above, while the European ownership declined by 70 estates there was a corresponding increase of 67 estates for the Asians.

<sup>75</sup>For a list of European registered rubber companies still in operation in Perak in 1957, see Appendix 6.

perspective. The exploitation of tin and estate rubber, however, did not directly benefit the indigenous population to any great extent. The colonial state did introduce and implement policies that were meant to assist the development of the indigenous population. The interests of capitalist enterprise however remained a priority.

## **5.6 Labour and immigration policy**

The economic achievements in Perak, like any other production processes, required the input of the three factors of production: land, labour, and capital. While land was readily available and foreign capital could be attracted, the growth of the state via the exploitation of tin and rubber could not have been achieved without an adequate labour force. The small population of the state and the lack of interest of the indigenous peasantry were part of the reasons why the state necessitated an immigration policy that encouraged the importation of labour.<sup>76</sup>

In tin mining, the major part of the labour force came from Kwantung and Fukien in South China. The Chinese came in large numbers because of the prospect to earn considerable amounts of money, much of which could be repatriated. The scale of Chinese immigration generally followed quite closely the demand of tin in the world markets that, in turn, influenced production.<sup>77</sup> This situation, at least, holds true until the end of the 19<sup>th</sup> century after which the changes in land policy and the mechanisation of

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<sup>76</sup>For Perak's population growth and the influx of foreign labour, see Section 3.5.

<sup>77</sup>For detailed statistics on immigration and emigration of Chinese men in Perak between 1885-1914, see Wong Lin Ken (1965), Appendix A, Table M, p.258.

tin production resulted in a great reduction in labour requirements.<sup>78</sup> These two occasions eventually led to the displacement of a large number of Chinese labourers, some of them were repatriated<sup>79</sup> and the rest were forced to switch occupation.<sup>80</sup>

As in the case of tin mining, the rubber industry faced similar problems. The exclusion of significant access of Chinese labour to European capitalists resulted in the immigration of Indian labour from Southern India. Unlike tin mining, the inflow of immigrant labour in the rubber industry was not only unrestricted but also assisted by the colonial government. The extent of colonial government support for the large-scale importation of Indian immigrants was so strong that in 1907 a 'Tamil Immigrant Fund' was established to finance Indian immigrant passage to Malaya.<sup>81</sup> In 1911, there were already 33,122 Indian immigrants working in various estates throughout Perak and at its peak the number rose to 75,840 in 1921.<sup>82</sup>

In the development of the Chinese tin mining industry their success was closely linked to their labour control capability.<sup>83</sup> Various means were used including indenture, kinship and clan ties, and provincial connections in the recruitment drive. A free market for labour was non-existent and they were within the rigid control of Chinese capitalists and secret societies. The abolition of secret societies undermined the Chinese control over

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<sup>78</sup>Chinese immigration fell sharply after 1914 due to the drop in tin prices. Immigration restrictions imposed by the government and the devaluation of the Straits dollar in subsequent years made Malaya an unattractive country to work in, see Lee Kam Hing (1978), pp.41-2.

<sup>79</sup>Ibid., p.35. For example, in 1931 21,176 Chinese immigrants were repatriated and in 1932 the figure stood at 10,007 immigrants.

<sup>80</sup>In 1918, for example, a total of 21,180 Chinese labourers, mostly made redundant in the tin mining industry, were involved in the rubber smallholding sector in Kinta. [Ravinder Singh (1994/95), p.30]

<sup>81</sup>This scheme was established by the FMS to assist all the states in the Federation.

<sup>82</sup>See Table 3.5.3 in Section 3.5.

<sup>83</sup>For Chinese capitalists' control over labour, see Jomo (1988), pp.162-7.

labour and saw the emergence of 'free' labour that could choose employers, obviously preferring those willing to pay higher wages. This led to the shift in labour patterns where the Chinese labourers either moved to work for other foreign employers or engaged in other economic activities. In the rubber industry, the control of Indian labour was initially through the indenture recruitment system. The high cost and the monopoly of labour by a few recruiting firms necessitated and encouraged the *kangany* system. This involved sending a *kangany* (Tamil foreman) to his village to recruit cheaper labour and without loss of control over labour for the employer. The eventual demise of the *kangany* recruitment system came in 1938 when all assisted passage from India to Malaya was prohibited.

Different policies existed in the recruitment of labour for both the tin mining and rubber industries. In tin mining, labour recruitment was carried out directly by the Chinese capitalists with minimal government intervention. Despite the deplorable working conditions that the labourers endured, the absence of resistance from the Chinese government was understood, as a treaty between Britain and China allowed unlimited emigration of Chinese labour to any part of the British colonies as and when required.<sup>84</sup> On the other hand, the recruitment of Indian labourers was carried out through inter-government agreements that, at least, theoretically ensured that the immigrant labourers would be well catered for during their working stay in Malaya. With such an arrangement, in contrast to the Chinese immigrants, the colonial government treated Indian labour 'in a [more] patronizing manner'.<sup>85</sup>

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<sup>84</sup>Ibid., p.163

<sup>85</sup>Ibid., p.196

In the late 1930s, the decline in traditional tin production methods, which were replaced by new technology, greatly reduced the need for imported labour.<sup>86</sup> The prevailing immigrant workforce available for employment signified that the state was not in short supply of labour and the surplus availability forced the colonial government to impose a quota system for Chinese immigration. By this time, the need for immigrant labour in Perak was virtually over. The 'surplus' labour available therefore had to pursue other economic activities. Being settled immigrants, their access to land was restricted and wage employment was also limited so that many Chinese became involved in self-employment activities in diverse sectors, filling in the gaps that were created by the dynamic colonial economy.<sup>87</sup> Together with the networks that relied heavily on kinship ties, dialect groups and other economic linkages Chinese immigrant labour prospered and managed to move away from their reliance on the tin mining industry. While the quota system was imposed on Chinese immigration, at about the same period the Indian government too had imposed a total ban on the emigration of unskilled labour to Malaya. However, the progress of Indian immigrant labour had not been as successful as the Chinese. During the low demand and low prices for rubber, the high unemployment among Indian immigrants had also forced repatriation.<sup>88</sup> In addition, the isolated self-contained, low-wage estate environment made it difficult for Indian immigrant labourers to pursue alternative economic activities.

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<sup>86</sup>Chinese labour in the tin mining industry in Perak in 1935, for example, stood at 26,739 and more than two-thirds were in the Kinta district. [Rex (1936), p.29]

<sup>87</sup>Jomo (1988), p.174.

<sup>88</sup>Repatriation of Indian immigrant labour from Perak stood at 10,420 in 1931, 9,797 in 1932, 1,315 in 1933, and 343 in 1934, see Lee Kam Hing (1978), Table 11, p.36.

Labour and the immigration policy, therefore, played an important role in the economic exploitation of tin and rubber during the colonial period. The absence of an indigenous proletariat necessitated the importation of foreign labour to ensure an adequate workforce. In achieving competitive advantage for the primary commodities, the colonial state's labour policies ensured that sufficient labour was available at the lowest possible costs. It is in the attempt to seek 'surplus' by capitalists that labour control was essential and also wages were suppressed. Technological progress and the vicissitudes of world markets eventually led to the decreasing need for and the displacement of labour. These changes, in part, led to the permanent settlement of both Chinese and Indian immigrants after spending many years in Perak. While the 'free' Chinese displaced labour moved into other employment created by the rapid development of the colonial state, the 'free' Indian immigrants and the Malays lagged behind in this area. However, the prevailing conditions also meant that opportunities were available for the Malays to redistribute economic activities between subsistence, export commodity production, and also wage employment. By the end of the colonial period, Perak, once dominated by Malays, had been transformed into a multi-ethnic state. Although the availability of imported labour had assisted the rapid economic development of the state, the decision of a substantial number of immigrant labourers to become permanent settlers contributed to the alteration of the pattern and character of the communities in Perak.

## **5.7 Summary and conclusion**

The presence of British administration in Perak for some eighty years had both positive and negative consequences for the state. On the independence of Malaya, Perak had been



successfully transformed into a modern state. It is therefore appropriate to conclude by examining some of the transformations that had taken place during the colonial period and the exploitation of tin and rubber.

In order to exploit these primary commodities, the availability of capital and labour was a priority for the colonial government. Once these issues had been successfully resolved, the focus then turned to the ways in which the production of tin and rubber could be sustained with regard to the expansion of infrastructure and social development. However, these were only developed to a level which facilitated the exploitation of the commodities. Most of the benefits accrued to both the foreign capitalists and the colonial government with the repatriation of income and profits to the home country. This had far exceeded the relatively modest investment in government institutions and infrastructure, which were in any case concentrated in areas where it was necessary to have efficient communication for the transport of export commodities. By the end of the colonial period, the focus on tin and rubber too resulted in a dependent state economy that was exposed to the fluctuations of the world market. This dependent economic status could prove detrimental to the long-term prosperity of the newly independent state. As a dependent territory, Malaya at that time was merely one element in a global economic and political order dominated by Britain.

To the Malay population, the exploitation of tin and later rubber had resulted in the commercialisation of the Malay economy. The increase in the immigrant population working in tin mines enabled surplus rice production to be sold. In the rubber sector the

Malays were directly involved in production, mainly as smallholders. Traditional economic relations that were weakened with the introduction of the colonial landholding system were further undermined during the era of rubber cultivation. To preserve Malay landholding and rice production, the Malay Reservation Act was introduced. Therefore, the main resource available on which the Malays could capitalise was land and this was placed under restriction. Rather than providing protection, it stunted the growth of Malay entrepreneurship in the colonial economy. The Malay traditional disinclination towards investment was therefore reinforced by colonial policies, which in the first place attempted to insulate the indigenous community. As a consequence of these restrictive circumstances, there was no substantial participation of the Malays in the commercial sector during the colonial period.

The shortage of labour to work the tin mines and rubber estates was resolved by the large immigration of Chinese and Indians. Over time, the substantial increase in the immigrant population also enabled the formation of self-sustaining and relatively self-contained ethnic communities. It was also the result of the colonial government's practical policy of combining ethnic identity and economic function. This saw the immigrant Chinese for example, using family relations, neighbourhood and language ties as a basis of their internal organisation. This system of networking, however, was not particularly evident among the Indian immigrant community except in limited areas such as the formation of unions in estates to struggle for better working conditions and wages.

The relationship between ethnic community and economic function too brought changes to the state's demography and population distribution. The development of tin and rubber, which were both labour intensive, resulted in population concentration in defined geographical areas. The Chinese immigrants, therefore, were heavily concentrated in the Larut and Kinta districts, prominently associated with tin mining. The distribution of the Indian immigrants was within the rubber belt while the Malays were located in the rice-growing districts. Towns in the tin mining districts also took on a mainly Chinese character. These patterns of ethnic distribution and settlement were also associated with patterns of uneven economic development.

The higher volume of commercial activity and the increase in population also gave rise to a range of trading, financial and other services. Private enterprise was the agent in the development of the export of tin and rubber but the state played its role in providing the administrative and legal framework for a successful capitalist economy. While it is true that the colonial government had to diversify the economy from tin by promoting rubber production as well, both commodities were export-oriented in nature, which resulted in the state's high propensity to import other goods. The notion that the comparative advantage of tin and rubber was a reason why the state had not focussed on industrialization should not be accepted. In fact, these commodities could have been the basis for industrialisation. In the longer term, the state could not survive on the basis of the export of these two commodities; tin was a declining resource and rubber was too sensitive to price fluctuations and faced stiff competition from substitutes.

Overall, Perak had achieved considerable progress in economic development during colonial rule. Basic infrastructures were developed and standards of living had risen. However, this expansion was uneven in its scope and consequences. Colonial policy was oriented primarily to an extractive rather than a developmental strategy. There was little attention to the development of either heavy industry or domestic manufacturing other than small-scale foundries to service the mining sector and, in the rubber sector, the simple process of producing smoked sheet operated by smallholders. Therefore, the multiplier effect in economic development was very much less evident. It was left to the state in independent Malaya to try resolve these economic imbalances and the uneven character of capitalist economic development.

## **CHAPTER 6**

### **THE ROLE OF THE POST-COLONIAL STATE IN THE ECONOMIC DEVELOPMENT OF PERAK (1957-1980)**

#### **6.1 Introduction**

When Perak achieved her independence along with other states in Malaya in 1957, a new chapter in its history emerged. Having undergone 83 years of British colonialism, the opportunity for the local populations to administer their own country became available. Immediate changes were not apparent but initiatives were taken and gradually the state government of Perak began to make alterations to those approaches adopted by the former colonial government. These changes were more evident when the National Economic Policy (NEP) was launched in 1970. Shifts in economic and social policies, and related activities were made or amended to suit the local requirements as well as to adapt to changes demanded by the global economic environment. Above all, diversification in an economy, which relied on two main commodities, became essential. As a result of economic diversification, changes in the land use pattern, labour utilisation, and investment became more prominent. The roles undertaken by the state were mainly as initiators for the changes in Perak's economic and social structures. As in previous periods, emphases and analyses in this study are given to the changing economic structure of Perak, again in particular to those associated with land, labour, and capital. This chapter, therefore, discusses the role of the state in the independent Malay(si)a, and the economic development in Perak from independence to 1980.

## **6.2 The state and underdevelopment**

With regard to Perak it has to be acknowledged that, as a state, the post-independence period up to 1980 saw rapid economic growth brought about by the legacy of the colonial capitalist economy, which was mainly based on the exploitation of its tin and rubber. However, economic progress was limited to those parts of the state most closely linked to the international capitalist system, and was therefore uneven in nature. Other parts of the state that had nominal or no connections with either the tin or rubber sectors, particularly the rural areas, did not develop in tandem. At the state level the developed areas became the 'metropolises' while the rural areas the 'satellites'. Generally, a dual condition existed in Perak: on the international front, as a result of economic dependence, the economic surplus was extracted and was used mainly for the development of the Western centres; and on the domestic front, the economic centres turned into urban metropolises and the rural areas became the satellites that depended on the former.

The notion of dualism within underdevelopment, which implies that there is no connection between the 'modern' and 'traditional' sectors of the economy, however is false since there are important linkages. The introduction of capitalism into Perak generated the development of the modern sector; other areas inevitably had to come into contact with these 'modern' areas, particularly in trade and primary commodity-related activities. But the state experienced considerable economic and social division: disparities in spatial development, differing technological levels between sectors and regions, and in the social customs and attitudes between the indigenous and imported systems.

During the post-colonial period there was a need to address and restructure this imbalance to avoid continuing underdevelopment and overdependence on foreign economic interests. In the early period after independence, restructuring was not substantial except that Perak began gradually to diversify its economic activities that ranged from tin mining and rubber to other commercial crops such as oil palm and cocoa. It however only began to develop manufacturing industry, on any scale, in the early 1960s. When diversification towards industrialisation began to take root in Perak, the concentrations of these industries were located either within or at the fringes of urban areas where adequate infrastructural facilities and labour for industrial production were available. However, in 1970 the introduction of the NEP began to see some changes in this process. Improvements in the state infrastructure comprised the construction of industrial parks in more dispersed parts of the state and these offered significant opportunities for the rural population to seek employment. In the 1970s textile manufacturing saw significant development in Perak, particularly in the north in the Larut Matang district. For the period 1970-1978 the manufacturing sector grew at an average annual rate of 31.9% (at 1970 prices).<sup>1</sup> The development of this industry, however, did not alleviate the problem of underdevelopment in Perak as a whole, as it merely absorbed the excess labour force released from the declining tin mining industry.

In the 1960s government policies also emphasised industrial investment, provision of tax subsidies and incentives to industries, tariff and quota protection and also greater spending in urban areas on schools, training, housing, and medical facilities. This is not to say that the rural sector had been neglected altogether. In fact, post-independent

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<sup>1</sup>Perak (1981). *Rancangan Malaysia KeEmpat Negeri Perak 1981-1985*, Ipoh, p.6.

government policies had emphasised the importance of rural development, more so under the NEP, with the establishment of various federal and state agencies to accelerate development in the rural sector. The progress however was comparatively slow compared to the urban sector.<sup>2</sup> Between 1970 to 1978, the agricultural sector managed an average growth of 4.4% per year, which comprised 24% of the state's Gross Domestic Product (GDP), which made it the largest contributor in 1978.<sup>3</sup> The low average annual growth in agriculture compared to manufacturing (31.9%) was partly due to the need to establish appropriate infrastructure for rural development and partly to the need to change the thinking and culture on development among the rural population. Although there was progress in rural development, the gap between the urban and rural sectors remained wide.<sup>4</sup> There was a continuing need to increase productivity to achieve higher living standards and at the same time eradicate poverty. The rural sector was particularly affected when there were limited employment opportunities and at the same time rapid population growth. While the need for industrial-based development had become more essential in the early 1960s, the reluctance of the industries to set up operations in rural areas prompted the government to introduce agriculture-based rural development schemes to counter underdevelopment in this sector. At the federal level, agencies such as the Federal Land Development Authority (FELDA) started the first scheme in Perak at Hulu Perak district in 1962 with 2,679 acres, the Federal Land Consolidation and

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<sup>2</sup>An example of the government's serious assistance towards the rural poor can be seen through the Guaranteed Minimum Price scheme for padi. In 1970 the minimum price was set at RM16 per *pikul*, increased to between RM36 to RM40 by 1980. [Shaari & Jomo, (1984) in Riggs, J. (1990). *Southeast Asia: A Region in Transition*, London: Unwin Hyman, p.118]

<sup>3</sup>Perak (1981), p.6.

<sup>4</sup>Gunnar Myrdal argued that in the development process spatial difference will always persist. Economic and social forces will produce tendencies towards disequilibrium, and movement to equilibrium is a false assumption. See Myrdal, G. (1963). *Economic Theory and Underdeveloped Regions*, London: University Paperbacks.



Rehabilitation Authority (FELCRA) in Slim River in 1967 with 300 acres, and the Rubber Industry Smallholders' Development Authority (RISDA) in Hilir Perak in 1968 with 6,500 acres. At the state level, the State Agricultural Development Authority (SADC) began their first scheme at Jalong in 1974 with 1,160 acres.<sup>5</sup> As more schemes were undertaken by these government agencies in the rural areas it also helped mitigate rural-urban migration.

There was also a rapid growth of population in the state. In the short-term, rapid population increase could retard the development process but in the longer run it could stimulate development in investment and technical progress. This could be beneficial to the state if complementary resources and factors of production are available, but the short-run costs may outweigh the benefits for a considerable time.<sup>6</sup> The population grew from 1.221 million in 1957 to 1.589 million in 1970 and in 1980 stood at 1.744 million people.<sup>7</sup> In the 1960s when Perak initiated its industrialisation activities, at a time when import substitution industrialisation (ISI) was encouraged by the federal government, the urban industrial sector was capable of absorbing labour from the rural sector. However, as industrial growth is dependent on the availability of capital, the capacity to absorb labour from the agricultural sector relied on continuing capital investment; the lack of capital investment could later restrict employment opportunities. The rural sector on the other hand, faced further underdevelopment until rural development schemes were gradually introduced by state and federal agencies.

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<sup>5</sup>Economic Planning Unit (EPU), Perak (1976). *A Brief Overview of Agricultural Sector in Perak*, Ipoh, pp.21-4.

<sup>6</sup>Thirlwall, A. P. (1999). *Growth and Development*, London: Macmillan Press Ltd., p.47.

<sup>7</sup>Federation of Malaya, *Annual Report 1957*; EPU, Perak (1993), p.9.

In confronting the conditions of underdevelopment between regions in Perak in the post-independence period, another key issue was the need to improve the low level of capital accumulation that was seen as the cause of low productivity and poverty. Capital accumulation requires investment and savings and it was not easy for the poor, who were primarily located in the rural areas, to save. The post-1970 NEP was launched to address this underdevelopment issue. The progress that took place within the next decade saw a substantial reduction in the level of poverty in Perak from 34% in 1970<sup>8</sup> to 19.3% in 1980.<sup>9</sup>

At the same time the overall rapid development in the state saw a chain of further cumulative expansion in favoured regions, by both state and private capital, particularly those in the north bordering Penang and in the central region surrounding Ipoh. The 'backwash effect'<sup>10</sup> created by development in the favoured regions resulted in the persistence of economic difference. While the 'trickle down' or 'spread' effects usually included only neighbouring regions, the speed of development beyond favoured regions was invariably sluggish.<sup>11</sup> It was envisaged that only through active government intervention could regional differences be narrowed. The consecutive state 5-year planning programmes, in conjunction with those of the federal government, beginning particularly with the Second Malaysia Plan (1971-76), emphasised the importance of achieving relatively even economic development throughout all the regions in the state.<sup>12</sup>

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<sup>8</sup>Perak (1981). p.73.

<sup>9</sup>EPU, Perak (2002a), '*Pembangunan Ekonomi dan Industri Negeri Perak*', *Seminar Sasaran Kerja Tahun 2002/2003*, 21<sup>st</sup> January (Seminar paper).

<sup>10</sup>Forced concentration of resources in a particular area which does not spread out.

<sup>11</sup>Myrdal (1963) argues that the 'backwash effect' would always be stronger than the 'spread effect', which, in turn, causes regional differences to persist, that is, if the state does not intervene.

<sup>12</sup>See Perak (1971). *Rancangan Malaysia KeDua Negeri Perak 1971-1975*, Ipoh.

From 1957 to 1980 economic development in Perak saw various social and economic changes taking place. Although initial development was based more or less on the approach of the colonial government, from 1970 a radical change in the development agenda emerged, with greater emphasis on the rural sector. The government, both at state and federal levels, through the NEP, began to intervene increasingly in the economic system by direct participation in the ownership and control of productive assets. Like any market, a government can fail too, but Perak's achievements have shown considerable progress, particularly in the reduction of poverty. Government agencies set up to assist the rural population in agricultural activities had also produced an improvement in the general standard of living. Regional underdevelopment had decreased by 1980 but as it was only halfway in the NEP's 1970 to 1990 timeline, more needed to be done if the policy objective was to be met.

### **6.3 The economic thrust of the state**

The development policies of Malaysia between 1957-1980 can be divided into two distinct stages: the pre- and the post-1970 periods. The pre-1970 policies were the continuation of approaches adopted by the colonial government, which relied heavily on commodity export, the provision of infrastructure and rural development. The post-1970 period, on the other hand, as part of the 20-year national New Economic Policy, concentrated on affirmative action, growth with equity, and the greater emphasis on the industrialisation of the state.

After independence, there were several political and administrative changes which were mainly related to the replacement of personnel in the administrative system. In principle however very little change took place in economic policy based on the export of the primary commodities of tin and rubber. The colonial approach, based mainly on the free market system, was seen as the cause of increasing poverty and ethnic-based economic disparity.<sup>13</sup> The major modern economic activities, with the state providing support and facilities for capitalist enterprise and organising the division of labour in ethnic terms focusing on plantations, mining, and commercial activities, were not located in the villages, and were not seen as benefiting the rural population. Agriculture was the main economic activity for more than half of the population of the state,<sup>14</sup> especially the native communities. While the economic focus in the pre-1970 period continued to concentrate on primary commodities, changes in the rural sector began to take place in the 1960s with government initiatives. Among the various crops that were actively promoted were rubber and oil palm - commodities that strengthened Perak's dependence on international markets. The government's increased direct involvement in agriculture via rural development marked the end of the free market economic system in Perak and the beginning of a mixed economic system that saw the combination of free enterprise with active government support and direction. The establishment of government agencies, particularly in assisting in agricultural development (see above) is evidence of this.

Prior to independence, the attempts made by the colonial government to encourage the development of industries were largely focused on tin, rubber and its ancillary activities,

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<sup>13</sup>Syed Husin Ali (1981), p.80.

<sup>14</sup>Perak (1981). p.8.

though on a smaller scale raw material processing and basic consumer goods production were also present. This is understandable because as a colonial power, industrial development was geared towards the natural advantage available in commodities that can easily be exploited and at the same time protects the domestic market for British exports.<sup>15</sup> Other than those activities associated with tin and rubber, industrialisation only began to take place in Perak with the first major programme in Tasek Industrial Park in Ipoh in the early 1960s. In fact, the main policy difference between colonial and independent Perak was that in the latter, industrialisation was part of the state economic development programme, although it was not forcefully promoted until 1970, as the capacity to do so was limited. The form of industrialisation that took place during this time, however, did not see a decline in foreign dependence.<sup>16</sup> Rather Perak was further integrated into the international capitalist system.

However, from 1970 the NEP dictated the direction of the whole nation and signalled major changes in government involvement in the economy. The policy placed emphasis on two principal objectives: the need to reduce and eventually eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians irrespective of ethnicity; and to accelerate the restructuring process of Malaysian society so that identification of ethnicity with economic function would be reduced and

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<sup>15</sup>Lim Chee Ping, 'The Role of Government in Malaysia Industrial Development' in *The Southeast Asian Economic Review*, Vol. 6, No. 1, 1985, April, p.30; Hamilton, R., 'Industrialisation and Small-Scale Enterprise – The Case of Malaysia', Working Paper Series 90/9, University of Edinburgh, February 10, 1990, p.11. Lim Teck Ghee (1977) argued that colonial policies were designed to shelter British capitalist interests at the expense of local enterprise.

<sup>16</sup>Lim Mah Hui & William Canak, 'The Political Economy of State Policies in Malaysia', *Journal of Contemporary Asia*, 11(2), 1981, p.211.

eventually eliminated.<sup>17</sup> On the surface, since the majority of the poor were from rural areas, it would only be sensible to confront the issue of poverty by expanding rural development programmes to raise income levels. Major efforts at improving the agricultural and rural sectors were concentrated on land development, double cropping of rice, drainage and irrigation, rubber replanting and the expansion of oil palm cultivation. While this approach was a practical one, it did not help expedite development as envisaged. It relied too much on agricultural development, which would only expose the economy to dependence on one sector. In the 1970-75 period the average growth of annual agricultural production was only 3.7% in Perak compared to the national figure of 7.5%.<sup>18</sup> Furthermore, too much dependence on the agricultural sector would not achieve the second objective of the plan. More concentrated measures were therefore increasingly taken to promote manufacturing. Such action was seen as the prime mover of the economy and at the same time capable of reducing the income gap within Perak and moving away from dependence on primary resources. While the state economy progressed it was hoped that a fairer distribution of wealth could be achieved. In the decade of 1970-80 the share of GDP by sectors in Perak had changed (see Table 6.3.1).

**Table 6.3.1 Perak: Gross Domestic Product by sector (1978 prices)**

Sector	1970 (%)	1980 (%)
Agriculture	30	26
Manufacturing	11	20
Mining	19	11
Services	40	43

Source: EPU, Perak (1999b). *Taklimat Pembangunan* (Development briefing notes to Menteri Besar), December 16, p.3 (unpub.).

<sup>17</sup>This policy was first unveiled in the Second Malaysia Plan and further explained in detail under the review of the plan two years later, see Malaysia (1971a). *Second Malaysia Plan, 1971-1975*, Kuala Lumpur: Government Printers; Malaysia (1973b). *Mid-Term Review of the Second Malaysia Plan, 1971-1975*, Kuala Lumpur: Government Printer. Alternatively, for state specific, see Perak (1971).

<sup>18</sup>Perak (1976). *Rancangan Malaysia Ketiga Negeri Perak 1976-1980*, Ipoh, p.2.

The most remarkable change was the shift in the growth of manufacturing. This sector almost doubled its contribution towards GDP from 11% in 1970 to 20% in 1980. Between 1968-1974 the Federal Industrial Development Authority (FIDA)<sup>19</sup> approved a total of 242 manufacturing projects in Perak and a further 160 projects between 1975-1978.<sup>20</sup> In the agricultural sector, although there was continuous emphasis given by the government to rural development projects, the contribution towards state GDP began to see a decline from 30% in 1970 to 26% in 1980. The decline, in part, was the result of the more dynamic growth in the manufacturing sector. Although the percentage contribution had decreased, the agricultural production value increased. For example, in 1970 state agricultural production was valued at RM486.2 million, and it increased to RM612.0 million in 1975 and RM658.3 million in 1978.<sup>21</sup> In the mining sector the contribution towards state GDP had decreased substantially from 19% in 1970 to 11% in 1980. The reduction was mainly attributed to the depletion of the easily accessible tin ores, and the fluctuating price of the commodity. Furthermore, in areas where deep extraction was needed, it required a more sophisticated technology that was obviously more costly. The service sector however benefited from the positive developments in manufacturing. Originally, based on the needs of tin and later rubber production during the colonial period, the service sector expanded further despite the reduction in the importance of the agricultural and mining sectors. Their contributions to the state GDP, complementing the expansion of the manufacturing sector, rose from 40% in 1970 to 43% in 1980.

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<sup>19</sup>Formed in 1964, FIDA is a federal agency responsible for promoting industrial development in Malaysia, later renamed the Malaysia Industrial Development Authority (MIDA).

<sup>20</sup>Perak (1976), p.16; Perak (1981), p.19. 33 (13.64%) out of the 242 manufacturing project proposals approved in 1968-74 were eventually withdrawn.

<sup>21</sup>Perak (1981), p.9.

#### **6.4 Diversification of the economy**

The transfer of power from the British in 1957 signified a new era in the history of the country. But the legacy was a capitalist sector, consisting primarily of foreign-dominated enterprises involved in tin mining and rubber plantations, producing for export and was based on imported wage-labour. At the same time there existed a non-capitalist indigenous sector or a 'traditional' sector that was primarily involved in rice cultivation, shoreline fishing, and small-scale rubber planting activities that generally utilised family labour, where production was mainly for local consumption.

The economic approach of the colonial period was extended into the immediate post-independence period. However, adjustments to the approach were needed to counter two main problems facing the state. First, allowing the dualistic economy to persist would lead to a continuing severe uneven development in the state, spatially and ethnically. This would result in a division between a flourishing sector and an undeveloped sector that would grow wider with time. Secondly, the state as a whole would not grow economically on the basis of the export of its primary commodities which were subject to price volatility on the world market. The first 13 years of independence in Perak focused on economic diversification and income growth, while maintaining core economic activities in tin and rubber.

The attempt by the state to improve economic conditions in the pre-1970 period closely followed the ISI policy, in which most of the colonial policies were maintained. At the same time however there was increasing intervention in the rural sector as well as in the



development of the social and physical infrastructure. Despite the need for industrial development, the policy remained broadly non-interventionist, partly due to the pressures from foreign plantation companies that wanted to keep wages down, and at the same time, mitigate potential rural-urban migration. It was also partly due to the view that aggressive promotion of industrialisation would, among the local capitalists, largely benefit the Chinese, who comprised 49% of the total population of Perak in 1957.<sup>22</sup> This would in turn further widen economic disparities among the population.<sup>23</sup> During this period, while the initiatives for rural development were spearheaded by the government with the establishment of public agencies in particular, the development of the industrial sector was left mainly to private capital. This was with the exception of the initiatives of the federal government in the provision of infrastructure and the introduction of industrial incentive schemes.<sup>24</sup> It also conformed to Perak's economic policy whose basic intent was limited to the provision of a favourable economic climate with very little government interference or participation in industry.<sup>25</sup> At the same time government regulation in the industrial sector was kept to the minimum.

Although some industrialisation took place, particularly in the early 1960s in Ipoh and the surrounding areas, the emphasis in Perak's economy was still confined to agriculture, mining, and to a certain extent, logging. For example, 27% of the state revenue in 1964 of

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<sup>22</sup>Federation of Malaya, *Annual Report 1957*.

<sup>23</sup>Govindan, K., 'The Impact of Foreign Direct Investment on a Developing Country: A Case Study of Malaysia', Ph.D. Thesis, University of Lancaster, September 1997, p.25.

<sup>24</sup>The introduction of the Pioneer Industries Ordinance (1958) that provided tax-free holidays for selected industries depending on the length and size of investment, and also moderate tariffs granted to new industries was an initiative by the Federal Government to promote industrialisation in Malaya. The Investment Incentive Act (1968) superseded the earlier scheme, which provided revised incentives but still maintained its non-intervention policy in industrial development.

<sup>25</sup>Lim Chee Peng (1985), p.30.

almost M\$29 million, apart from federal fund allocations, consisted of revenues from forests, land and mines.<sup>26</sup> In the mining sector, concerns about oversupply in the global market, partly as the result of disposing from stockpiles, and the depletion in local sources in the longer term, were partly responsible for the state seriously addressing the issue of economic diversification. The migration of tin-miners from the vicinity of Larut to new areas in Kinta and Batang Padang districts, due to the decline of production and depletion of tin, was a lesson learnt for the state not to be overly dependent on the mining sector. In addition to this predicament was the situation that in the agricultural sector prospects for rubber were not positive with the increase in industrial consumption of synthetic rubber in the developed countries. Global industrial consumption of synthetic rubber had risen from 30% in 1955 to 52% in 1960.<sup>27</sup> Locally the 40% fall in rubber prices between 1957 and 1970 was largely blamed for the deterioration in the economic standing of the majority of the lower income groups.<sup>28</sup> It was in the late 1960s that the federal government finally acknowledged that industrialisation was the way forward for the nation to achieve sustained growth, a lasting positive balance of payments and optimistic employment possibilities for the increasing labour force and for those displaced from primary industries.<sup>29</sup> From 1970 economic policy emphasised export-oriented industrialisation (EOI) rather than import-substitution. For Perak, despite the favourable economic climate promoted, industrialisation (in the manufacturing sector)

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<sup>26</sup>Calculated from State of Perak (1965). *Estimates of Revenue and Expenditure for the Year 1965*, Ipoh, p.3.

<sup>27</sup>Govindan (1997), p.15.

<sup>28</sup>Othman (1984), p.131 in Rigg (1990), p.115.

<sup>29</sup>Govindan (1997), p.14.

accounted for only 11% of GDP in 1970<sup>30</sup>, indicating the general state of underdevelopment in modern sector activities.

The then economic strategy, despite the active promotion of rural development, had failed to spread economic benefits between both the urban and the rural population, and also between the different ethnic groups. This was particularly acute in Perak where the Malays comprised 39.7% of the population and the Chinese 44.2%.<sup>31</sup> The dissatisfaction with the lack of progress in addressing Malay economic backwardness nationwide culminated in the 'race riots' of May 1969, and led to the introduction of the NEP. Guided by the new federal policy, Perak abandoned its competitive capitalism policy and in its place, state agencies played an increasingly direct role in the economy,<sup>32</sup> from being primarily involved in resource allocation and regulation of the economy to direct owners of private enterprises.<sup>33</sup> The government's aims were clearly expressed in that

[it] will participate more directly in the establishment and operation of a wide range of productive enterprises. This will be done through wholly owned enterprises and joint ventures with the private sector. Direct participation by the government in commercial and industrial undertakings represents a significant departure from past practices. The necessity of such effort by the government arises particularly from the aims of establishing new industrial activities in selected growth areas and of creating a Malay commercial and industrial community.<sup>34</sup>

The need for diversification in the economy was also explicitly expressed in the NEP where measures were aimed directly at developing and restructuring the manufacturing sector. It was also the sector where the disparity gap was the greatest.<sup>35</sup> The dual

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<sup>30</sup>EPU, Perak (1999b), p.3.

<sup>31</sup>Calculated from Table 3.5.1 in Section 3.5.

<sup>32</sup>Vigorous state intervention was necessary to make a speedy development transition, both to promote growth and create better distribution of economic benefits. [Todaro (1992), pp. 80-94]

<sup>33</sup>Lim & Canak (1981), P.217.

<sup>34</sup>Malaysia (1971a), p.7.

<sup>35</sup>Lim Chee Ping (1985), p.32.

possibility of achieving economic growth and more balanced economic distribution among ethnic groups encouraged the state to diversify into manufacturing. On a national scale the reliance on economic diversification within agriculture did not result in any significant improvement. Attempts made to diversify from rubber to oil palm and cocoa cultivation were unable to absorb the excess labour released by the decline of rubber and tin. In rural development, initiatives through drainage and irrigation were unsuccessful in generating any significant employment.<sup>36</sup> However, the industrial development incentives provided by the government began to see an increase in manufacturing activities in Perak. Additional legislation, such as the Industrial Coordination Act of 1975, further assisted the government in the implementation of its industrial policies. Whilst most manufacturing activities were concentrated in the Kinta district in the 1960s, the 1970s saw these spread to other districts with the establishment of industrial parks by both the public as well as private sectors, with the public sector emerging as the prime mover through the Perak State Development Corporation (PSDC). This decade also saw an increase in the presence of multinational corporations in the state. By 1980 the state managed to almost double its manufacturing share in GDP to 20%.<sup>37</sup>

## **6.5 The proliferation of state enterprises**

In the economic development of post-independence Perak up to 1980 the changes in the involvement of state enterprises<sup>38</sup> can be divided into two distinct periods: the first is

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<sup>36</sup>Govindan (1997), p.15.

<sup>37</sup>EPU, Perak (1999b), p.3.

<sup>38</sup>A distinction has to be made between state agency and state enterprise. State agency refers to any public body established by the state that is supported by public funds and serves the community at large. The state

from 1957 to 1970, and the second from 1971 to 1980. The division between these two periods is important because economic policy at both the federal and the state levels underwent a radical change. The former was in many ways the continuation of the colonial system and the latter was under the NEP. The pre-1970 period was based broadly on an economic policy which more or less followed the colonial approach. The commitment of the state was to an unregulated private enterprise system with some modification to meet local needs. State expenditure in direct public investment in the modern sector was negligible. What was present was a modest amount of investment in commerce and industry to assist Malay participation and some government support to rural development.<sup>39</sup> During this period, the growth of government enterprises to encourage economic development was all federal-controlled. At the state level, however no authority was available to establish these government enterprises. In 1957 there were only 10 public enterprises<sup>40</sup> responsible in assisting the economic development of the whole nation.

However, the period 1971 to 1980 saw a shift in the economic development strategy towards export-oriented industrialisation (EOI). Most important, however, was the implementation of the NEP, embedded in the Second Malaysia Plan in 1971,<sup>41</sup> which saw the beginning of widespread direct state involvement in economic development. Formulated to extend over a 20-year period, both the federal and state governments were

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enterprise also carries a similar connotation but as a commercial organisation it has a different funding structure; most commonly an initial capital grant is provided; thereafter it may receive annual operating and development expenditure grants or it may be required to generate its own income.

<sup>39</sup>Tan Loong-Hoe, 'The State and Distribution of Wealth within the Malay Society in Peninsular Malaysia' in *Southeast Asian Affairs*, 1981, p.226.

<sup>40</sup>Mohd Affandi (1976), p.365-6 in Lim & Canak (1981), p.217.

<sup>41</sup>See Malaysia (1971a). *Second Malaysia Plan 1971-1975*, Kuala Lumpur: Government Printers.

entrusted with the main tasks of redistributing economic resources among the main ethnic groups and also restructuring the society to eliminate economic imbalances. In achieving the targets of the NEP, which were principally to achieve Malay politico-economic empowerment,<sup>42</sup> the distribution of economic wealth at the end of 1990 was set at 30% for *bumiputeras*, 40% for non-*bumiputeras*, and the remaining 30% for foreigners. The NEP also clearly stated the government's intention to participate in the establishment and operation of diverse productive enterprises.<sup>43</sup> These enterprises would later be transferred to the *bumiputeras* as private enterprises.<sup>44</sup> It was this policy approach that saw the proliferation of government enterprises in Perak as well as in the country as a whole.

On a national scale the number of state enterprises increased rapidly with the implementation of the NEP. Within four years there were 82 public enterprises owned by both the federal and state governments, excluding 65 wholly-owned subsidiaries and 185 joint ventures.<sup>45</sup> This figure further increased in 1980 to 434 public enterprises at federal level alone, engaged in a wide range of economic activities including services (41.6%), manufacturing (41.1%), agriculture (8.5%), construction (5.8%), and mining and quarrying (3.0%) (see Table 6.5.1). Although identifying the actual number of federal public enterprises that were directly involved in the economic development of Perak would be difficult, as no comprehensive data are available, those that were active complemented the economic development initiatives undertaken by the state government.

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<sup>42</sup>Morgan, J. (1971), 'Economic and Social Trends' in *Trends in Southeast Asia No.2: Proceedings and Background Paper of Seminar on Trends in Malaysia*, Singapore: Institute of Asian Studies, p.15.

<sup>43</sup>Malaysia (1971a), p.7.

<sup>44</sup>Malaysia (1976), p.88; Perak (1976), p.17.

<sup>45</sup>Mohd Affandi (1976), p.365-6 in Lim & Canak (1981), p.217.

In Perak the establishment of public enterprises only began in the early 1970s. The establishment of two state enterprises, namely the Perak State Development Corporation (PSDC) in 1971, and two years later the Perak State Agricultural Development Corporation (PSADC) signified the initial stage in direct state involvement in economic development. While the PSADC had the objective of encouraging and improving the development of agriculture in the state, the PSDC on the other hand was the prime mover in other wide-ranging economic enterprises, which had also complemented development initiatives carried out by federal agencies and the private sector. Its activities included assisting in the provision of downstream economic activities for the Forestry Department, and also in land development schemes, particularly in town and housing development projects such as those already undertaken by the Department of Land and Mines, and Housing and Local Government. Although the functions and objectives of the federal and state agencies and enterprises are similar, complementary, and in many cases overlapping, Perak's state enterprises have been in a better position to promote the local economy. They possess greater efficiency and operational flexibility, and are managed akin to a commercial venture, as compared to the traditional forms of federal and state agencies. The federal and state agencies were much more bureaucratic in character.

While it is not possible to determine the exact number of subsidiaries and joint-venture companies associated with the proliferation of state enterprises in Perak during the 1971-1980<sup>46</sup> period, either because the available state reports do not specify them or the required access was not granted during data collection, it is possible to illustrate the scale

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<sup>46</sup>This period covers two Malaysia Plans: the Second Malaysia Plan 1971-1975 and Third Malaysia Plan 1976-1980.

of involvement. The PSADC, for example, during 1971-1979 had developed a total of 19,642 acres of agricultural land with 2,878 acres during the Second Malaysia Plan and the balance of 16,764 acres in the subsequent period (see Table 6.5.2 and Map 6.5.1).

**Table 6.5.1: Number of Public Sector Enterprises by activity in Malaysia, 1980**

Activity	No. of Enterprise/s	Percent (%)*
Agriculture and Livestock Production	9	2.1
Forestry	27	6.2
Fishing	1	0.2
Rubber, Oil Palm, and Tea Processing	15	3.5
Mining and Quarrying	13	3.0
Food Manufacturing	38	8.8
Mfr. of Footwear, other wearing apparel and made-up Textile goods	19	4.4
Mfr. of Wood, Rattan Products	17	3.9
Mfr. of Furniture and Fixtures	5	1.2
Printing, Publishing, and Allied Industries	4	0.9
Mfr. of Leather, Fur, and Leather Products	2	0.5
Mfr. of Rubber Products	10	2.3
Mfr. of Chemicals and Chemical Products	6	1.4
Mfr. Of other Non-Metallic Mineral Products	4	0.9
Basic Metal Industries	5	1.1
Mfr. of Metal Products	11	2.5
Mfr. of Machinery	4	0.9
Mfr. of Electrical Machinery	10	2.3
Mfr. of Transport Equipment	12	2.8
Miscellaneous Manufacturing Industries	16	3.7
Construction	25	5.8
Wholesale Trade	17	3.9
Retail Trade	6	1.4
Banks and other Financial Institutions	57	13.1
Insurance	6	1.4
Real Estate	24	5.5
Transport	33	7.6
Storage and Warehousing	1	0.2
Communication	2	0.5
Services	35	8.0
<b>Total</b>	<b>434</b>	<b>100.0</b>

Source: Adapted from Ministry of Public Enterprise in Lim Chee Ping (1985). 'The Role of Government in Malaysian Industrial Development' in *The Southeast Asian Economic Review*, Vol. 6, No.1, April, p.37.

\* Note: Percentages were re-calculated as some figures from the original source were incorrect.



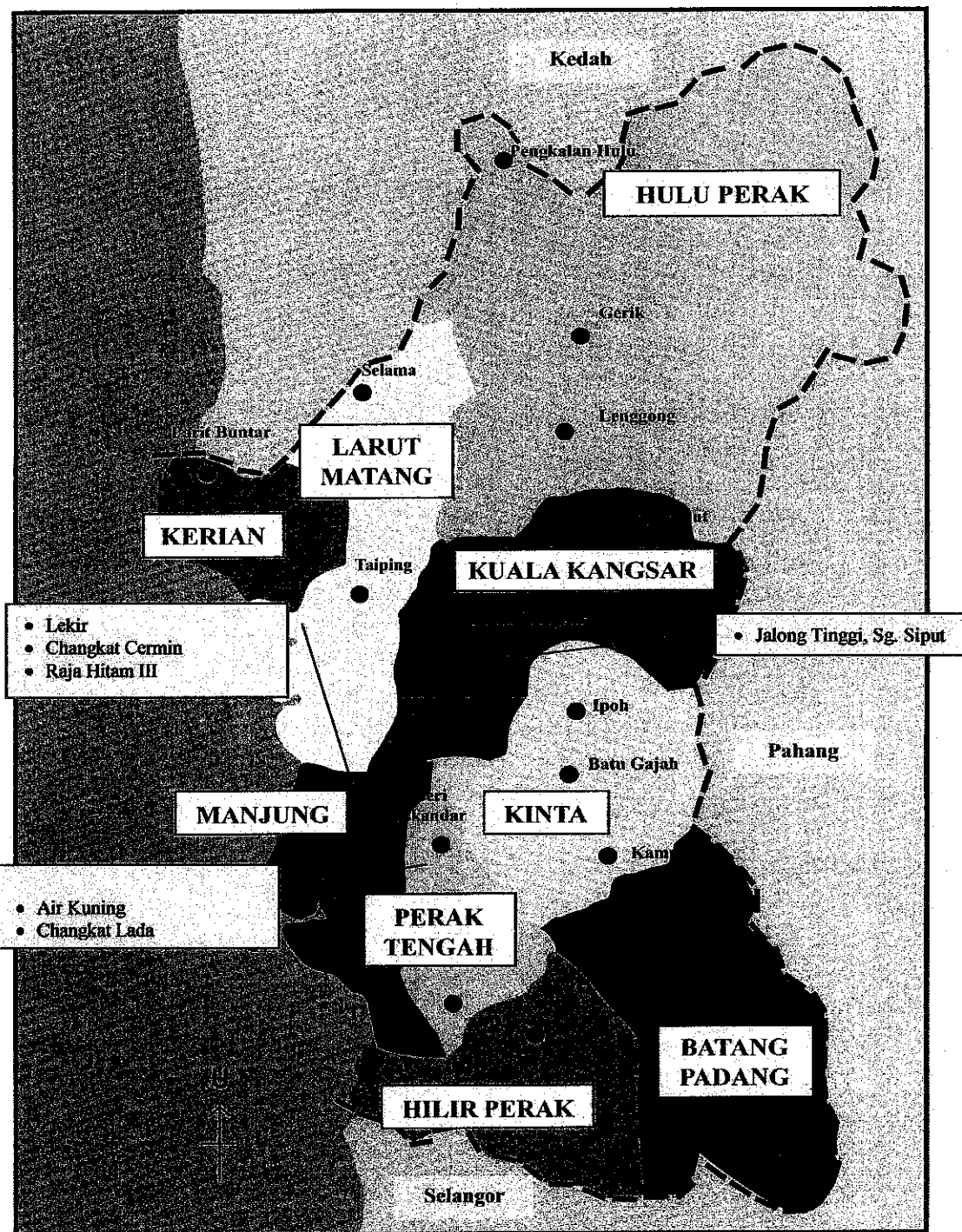
While the monitoring of the schemes was centralised under the PSADC, the management and operation of these plantations were effectively run by wholly-owned subsidiaries such as Ladang Lekir Sdn Bhd, Dindings Oil Palm Industries Sdn Bhd, and Ladang Jalong Sdn Bhd. While these are some of the better-known enterprises established under the PSADC, there were others, particularly run on a joint-venture basis with the private sector to support such activities as nurseries, real estate, land clearing and rehabilitation, mills, and transport. In the post-1980 period, the PSADC had also established various enterprises in agro-business related industries.

**Table 6.5.2 Perak: PSADC Land Development Schemes 1971-1979**

District	Development Scheme	Crop	Acreage
Kuala Kangsar	Jalong Tinggi, Sungei Siput	Oil Palm	1218.0
Kuala Kangsar	Jalong Tinggi, Sungei Siput	Rubber	645.0
Dindings	Lekir	Coconut	529.7
Kampong Gajah	Air Kuning	Tapioca	485.0
Dindings/Perak Tengah	Lekir	Oil Palm	3661.0
Dindings	Lekir	Cocoa	529.7
Dindings	Lekir	Tapioca	485.0
Dindings	Changkat Cermin	Oil Palm	3441.5
Dindings	Changkat Cermin	Tapioca	2562.0
Dindings	Raja Hitam III	Oil Palm	1300.0
Dindings	Raja Hitam III	Tapioca	3165.0
Perak Tengah	Air Kuning	Tapioca	1000.6
Kuala Kangsar	Jalong	Tapioca	50.0
Perak Tengah	Changkat Lada	Tapioca	570.0
		Total	19642.5

Source: Collated from Perak (1981). *Rancangan Malaysia KeEmpat: Negeri Perak 1981-1985*, pp.56-7.

In the case of the PSDC, the increase in the number of state enterprises was even more substantial due to its diverse involvement in the economy. In the logging industry 20 joint-venture companies were established during 1976-1977 alone, all with 60-40 equity



**Map 6.5.1 Perak: PSADC Land development schemes 1971-1979**

with the PSDC holding the larger share; there was also the establishment of a sawmill in Grik.<sup>47</sup> In the manufacturing sector, in the early 1970s, four enterprises were established: two wholly-owned enterprises involving coconut-based products in Hutan Melintang and a brick factory in Bruas, and two joint-venture enterprises involving electronics and timber-based products located in Ipoh.<sup>48</sup> Apart from these projects, there was also evidence of the PSDC acting as capital providers in numerous manufacturing companies throughout the state during 1971-1975 totalling RM340,000.<sup>49</sup> In the mining sector a total of 10 joint-venture enterprises were established during the 1971-1980 period.<sup>50</sup> Through various joint-venture arrangements, 267 commercial stalls either for rent or sale were set up to encourage small businesses in the state which the PSDC had built.<sup>51</sup>

There was much more PSDC investment in the construction and industrial sector. In construction a total of 688 houses were built via joint-venture companies during 1971-1975;<sup>52</sup> during 1976-1980 10 joint-venture companies were established to undertake the development of 2,904 residential and commercial buildings.<sup>53</sup> To further promote industrial development in the state, the PSDC developed 6 industrial estates with a total acreage of almost 2,300 acres during the 1971-1980 period.<sup>54</sup> Although there is no indication whether these industrial estate projects were undertaken directly by the PSDC or by newly formed subsidiaries and joint-venture companies, the general trend of the PSDC operations suggests the latter two.

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<sup>47</sup>Perak (1981), p.54.

<sup>48</sup>Perak (1976), pp.17-8.

<sup>49</sup>Ibid., p.18.

<sup>50</sup>Ibid., p.20; Perak (1981), p.54.

<sup>51</sup>Perak (1976), pp.21-2.

<sup>52</sup>Ibid., Table III-2, p.21.

<sup>53</sup>Perak (1981), p.55.

<sup>54</sup>Perak (1976), p.18; Perak (1981), p.54.

The available evidence clearly indicates the beginnings of a substantial increase of state enterprises in Perak in the early 1970s. There may be others for which data are unavailable. Between 1971 and 1980 at least 54 state enterprises were established (see Table 6.5.3).<sup>55</sup> This transformation is totally in contrast to the economic development approach undertaken prior to 1970.

**Table 6.5.3 Perak State Enterprises by industry, 1971-1980\***

Industry	No. of Enterprises
Agriculture	3
Logging/Forestry	21
Manufacturing	4
Mining	10
Construction	10
Industrial Estates	6
Total	54

Note: \* Not comprehensive and limited to the data available.

## 6.6 The changing land use pattern

In the economic development of Perak changes can also be identified in the land use pattern in the post-independence period. This section traces land development in the 1957-1980 period. As with the increase of the number of state enterprises in Perak, the intensification in land use was more prominent after 1970 as a result of the NEP. The discussion of land use patterns is divided into two parts – the agricultural and non-agricultural sectors.

Medium- and large-scale land development schemes were introduced with rubber, a high demand commodity at the time, in addition to oil palm, padi and coconut. Prior to 1970

<sup>55</sup>It is reported that prior to 1955 there were 11 public enterprises in Malaysia. In 2004 the numbers had increased to more than 1,345, both at federal and state levels. [Hill et. al. (2004). *Accountability and Control of Public Enterprises*, Asian Organisation of Supreme Audit Institutions (ASOSAI), pp.1, 6, 9]

two state schemes were established in Perak – the Fringe Land Alienation Scheme and the Group Settlement Scheme covering a total of 32,936 acres benefiting 7,041 settlers.<sup>56</sup> These were agricultural schemes that had similar structures to the federal-controlled FELDA and RISDA programmes but were controlled by Perak state. Since the 1960s federal agencies too contributed to the changing agricultural landscape of Perak. FELDA had established five rubber land development schemes totalling 14,144 acres, FELCRA and RISDA, with two schemes each, developed 1,567 acres and 11,500 acres respectively.<sup>57</sup>

While rubber was the leading crop of the time, oil palm began to gain momentum in the early 1960s. Oil palm cultivation had been a minor part of the agricultural scene up to 1961 when there were only 32,300 acres of oil palm plantations in Perak.<sup>58</sup> The first oil palm scheme initiated by a public agency was initiated by FELDA in 1962 and by the end of the decade a total of five schemes had been established covering an area of 14,049 acres; the state scheme only began in 1968 under the Youth Land Scheme in Perlop with 800 acres.<sup>59</sup> Padi and coconut cultivation did not figure in land development schemes in the pre-1970 period compared to those of rubber and oil palm cultivation. Restricted by soil conditions, the few schemes established consisted of very large areas. Concentrated in the districts of Krian, Hilir Perak, and Dindings, padi and coconut cultivation, however, received extensive state support, particularly in terms of drainage and irrigation facilities, technical assistance, and subsidies. The support enabled the expansion of these

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<sup>56</sup>EPU, Perak (1976), pp. 19-20.

<sup>57</sup>Calculated from EPU, Perak (1976), pp.22-24. Distribution of land development schemes among the districts in Perak up to 1975 can be found in this report.

<sup>58</sup>Lim Chong Yah (1969), Table 5.6, p.139.

<sup>59</sup>EPU, Perak (1976), pp.20-2.

crops to a remarkable level so that in 1966 there were 128,746 acres of padi and 104,632 acres of coconut in the state (see Table 6.6.1).

**Table 6.6.1 Perak: Agricultural land use 1966-1980, selected years<sup>60</sup>**

Land Use Category	1966 (acres)	1970 (acres)	1974 (acres)	1980 (acres)
Rubber	624,101	634,321	683,045	627,251
Oil Palm	39,337	81,145	130,612	223,130
Padi	128,746	201,399	129,299	171,696
Coconut	104,632	110,905	116,104	135,711
Pineapple	1,456	n.a	200	n.a
Coffee	108	n.a	61	2,032
Cocoa	8	8,042	20,230	62,868
Sugarcane	0	10,175	7,666	52
Orchards	2,706	n.a	7,576	21,592

Sources: 1966 & 1974: Wong (1974). *The Present Land Use of Peninsular Malaysia*, Vol.I, Ministry of Agriculture, p.395; 1970: EPU, Perak (1976). *A Brief Overview of the Agricultural Sector in Perak*, p.14; 1980: Perak Agricultural Department (1980). *Maklumat Tanaman Perak*, pp.1-20.

New development initiatives were limited in the non-agricultural sector in the pre-1970 period. Attention was mostly directed to the provision and improvement of infrastructure to support the rural development policy. Apart from the tin mining industry, the non-agricultural changes in land use were essentially the result of urbanisation with the growth of new townships and the beginning of industrial enterprises in the late 1960s.<sup>61</sup> Tin mining, however, continued to dominate this sector. Producing at an annual average of 35,000 tonnes during the 1957-1970 period<sup>62</sup> this sector continued to open up more

<sup>60</sup>These statistics were gathered from the sources indicated with different data collection approaches. While those of 1966 and 1974 were collected via more scientific mapping surveys, those of 1970 and 1980 were collected on the ground by the State Agricultural Department. Some caution should therefore be applied using these statistics, although the general pattern of the development of the agricultural sector can still be discerned.

<sup>61</sup>The PIO (1958) did not attract many industrial establishments to Perak except for those located in Tasek Industrial Park, Ipoh in the early part of 1960. The IIA (1968) changed the momentum that saw more industrial development taking place at the end of the decade.

<sup>62</sup>Calculated from Jomo, K. S. (1990). *Undermining Tin: The Decline of Malaysian Pre-eminence*, Transnational Corporations Research Project, University of Sydney, Appendix Table 6, p.89. During the period tin production was at its lowest in 1958 with 21,700 tonnes and gradually increased to the highest production in 1968 with 43,500 tonnes; for Perak's tin production during 1957-2000, see Table 7.2.2 in Section 7.2.

land for the extraction of the commodity. In 1966 a total of 73,401 acres were attributed to tin production (see Table 6.6.4).

After 1970 the agricultural sector was further expanded. However, industrialisation in the non-agricultural sector expanded at a much faster rate. Although there was a realisation of the need to diversify the economy in the early years of independence, no vigorous and constructive efforts were undertaken until after 1970. Table 6.6.1 above can best illustrate the changes in the agricultural sector. Rubber, which was dominant as the most important agricultural commodity from the beginning of the century, began to decline from the mid-1970s. Between 1974 and 1980 there was a reduction of about 8% or almost 56,000 acres. The increasing competition from other world producers and the growing use of synthetic rubber forced cultivators to seek and plant new crops; rubber prices too were not encouraging – the last year that the rubber price exceeded 100 cents per pound was in 1960 and it gradually declined to its lowest in 1972 at 42.4 cents per pound before again progressively reversing the trend.<sup>63</sup> However, despite the decline in the acreage of rubber, level of production was not severely affected. Advances in the technology of rubber production from planting material to yield stimulation to soil maintenance and so on saw a reduction of 8.2% in the acreage between 1974 and 1980 but this only resulted in about a 4% decrease in production (see Table 6.6.2).

The decline in the interest in rubber was also the result of both estates and smallholders turning to oil palm as an alternative crop. Apart from its high price, oil palm also requires

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<sup>63</sup>For comparative purposes, in 1960 the price of rubber was 108 cents/lb, in 1970 was 56.4 cents/lb, and in 1980 was 141.7 cents/lb. The price is based on ribbed smoked sheets (RSS) only. For a complete list of rubber annual prices 1905-1983, see Jomo (1988), Table 7.1, pp.181-2.

a shorter maturation period and better returns as compared to rubber. In 1970 a metric tonne of fresh fruit bunches (ffb) of oil palm fetched a price of RM80; the price more than doubled to RM180 per tonne in 1978;<sup>64</sup> and the annual return for investment in oil palm was reported to be averaging between 20% to 30% against fewer than 10% for rubber.<sup>65</sup> With such an incentive, oil palm cultivation was fast changing the land use pattern in Perak. Within a decade oil palm had increased its total acreage by almost three-fold from 81,145 acres in 1970 to 223,130 acres in 1980. The production of estates and land schemes alone had increased by about the same amount (see Table 6.6.2). While the reduction in rubber acreage was partly the result of estates switching to oil palm, this crop also attracted both large and small new cultivators. Between 1970 and 1979 the state government had alienated a total of 333,353 acres for agricultural purposes (see Table 6.6.3). While a complete crop distribution is not available for detailed analysis for alienated agricultural land, a simple exploratory assessment can be made: RISDA focused on the development of rubber for smallholders;<sup>66</sup> FELDA and FELCRA, despite their involvement in rubber and, to a very limited extent, in padi cultivation in their early years, concentrated more on oil palm cultivation from the early 1970s; SADC had a more wide-ranging involvement in crop cultivation – between 1971 and 1979 about 49% of its planted area comprised oil palm;<sup>67</sup> the private ‘individual’ category, largely consisted of smallholders, and this is more difficult to generalise but the trend of new planting between 1970 and 1980, excluding padi, goes in the order of coconut, oil palm, and

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<sup>64</sup>Perak (1981), p.13.

<sup>65</sup>Nagayam (1990), p.16 in Drabble (2000), p.218.

<sup>66</sup>RISDA did venture into oil palm cultivation in the late 1960s. In 1980 they had 3,926 acres brought forward from the early development schemes. [Perak Agricultural Department (1980), p.3] Subsequent years saw their oil palm holdings decrease to about 680 acres only. [EPU, Perak (1986a), p.44]

<sup>67</sup>Calculated from Table 6.5.2 in Section 6.5 with the following result: rubber (3.2%), oil palm (49.0%), coconut (2.7%), cocoa (2.7%), and tapioca (42.3%).



rubber respectively.<sup>68</sup> But between a half to two-thirds of the agricultural land alienated during the 1970 and 1979 period was directed towards oil palm cultivation.

**Table 6.6.2 Perak: Agricultural production 1971-1980, selected crops**

Year	Rubber (metric tonnes)	Oil Palm* (metric tonnes)	Padi (metric tonnes)
1971	181,387	437,339	208,148
1972	176,429	458,181	208,397
1973	211,844	474,314	234,293
1974	215,272	578,939	264,021
1975	199,426	683,344	201,199
1976	226,736	726,050	196,291
1977	225,014	869,397	226,888
1978	219,523	961,054	174,511
1979	216,656	1,123,966	202,194
1980	206,253	1,184,223	190,131

Source: Collated from Economic Planning Unit (comp.)(1994). *Statistical Data for Gross Domestic Product*, Kuala Lumpur: Regional Economic Section, Prime Minister's Department, Tables 1, 4, and 5

Note: \*Production of fresh fruit bunches (ffb) by estates and land schemes only.

**Table 6.6.3 Perak: Land alienated for agricultural purposes 1970-1979 (in acres)**

Year	FELDA	FELCRA	RISDA	SADC	Individuals	Total
1970	6,940	1,470	0	0	1,125	9,535
1971	0	1,500	0	0	74,440	75,940
1972	0	9,000	0	0	20,572	29,572
1973	0	6,000	0	0	30,980	36,980
1974	0	5,066	14,910	0	16,606	36,582
1975	2,940	0	0	3,241	559	6,740
1976	0	0	0	16,130	319	16,449
1977	28,700	922	7,355	1,050	7,902	45,929
1978	31,800	37,761	0	2,092	683	72,336
1979	2,000	1,290	0	0	0	3,290
<b>Total</b>	<b>72,380</b>	<b>63,009</b>	<b>22,265</b>	<b>22,513</b>	<b>153,186</b>	<b>333,353</b>

Source: Department of Land and Mines in Perak (1981). *Rancangan Malaysia Keempat Negeri Perak 1981-1985*, p.10.

While oil palm saw a tremendous increase between 1971 and 1980 overtaking rubber, padi cultivation decreased to be the third important agricultural crop in the state. The

<sup>68</sup>The increase/decrease of new planting among smallholders for the period is as follows: coconut +30,199 acres, oil palm +20,803 acres, and rubber -53,201 acres. [Calculated from Perak Agricultural Department, (1975). *Statistik Pertanian Negeri Perak 1975*, Ipoh, pp.26,28,31; Perak Agricultural Department (1980), pp.1, 4, 9]

extensive government support, which padi had received from both the colonial and the post-independence governments under rural development schemes, is well known. The development from 1970 onwards is a further extension of the former arrangements.<sup>69</sup> Although padi made a relatively small contribution to the state economic output,<sup>70</sup> continuing state support was deemed important, both economically and culturally, to the Malay rural population and, therefore, politically highly sensitive. With the high capital investment needed for infrastructure it would have been cheaper to import rice.<sup>71</sup> Table 6.6.1 clearly indicates that efforts had been made to bring more areas under rice cultivation between 1966 and 1980.<sup>72</sup> The large schemes were mainly located in Krian, Hilir Perak and Manjung districts while the smaller schemes, totalling some 6,000 acres, were dispersed in other districts in Perak.<sup>73</sup> During the 1971 to 1980 period a total of RM119 million had been spent either to improve or provide new drainage and irrigation facilities throughout the state<sup>74</sup> to enable double cropping,<sup>75</sup> a practical way of optimising land utilisation. Intensification was also carried out through utilisation of improved seeds, training, subsidies and other measures. In contrast, however, padi output did not

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<sup>69</sup>For example, during the Second Malaysia Plan (1971-1975), Perak was allocated M\$34.8 million for drainage and irrigation development, of which a large portion was used to implement 31 new and continuous irrigation and drainage schemes to improve infrastructure facilities to some 53,000 acres of existing and new *padi* land. [Malaysia (1973a). *Triennial Report of the Drainage and Irrigation Division for the Years 1970, 1971 & 1972*, Kuala Lumpur: Ministry of Agriculture and Rural Development, p.142]

<sup>70</sup>The total agricultural GDP contribution to the state in 1970 was 30% and later declined to 26% in 1980. [EPU, Perak (1999b), p.3] In 1970 padi production contributed only 16.5% of the total agricultural output of RM427.3 million. [Perak (1976), p.3]

<sup>71</sup>Apart from infrastructure and fertiliser subsidy provisions, the government guaranteed price scheme kept rice cultivation a viable venture for the peasantry. The padi price was guaranteed at RM16 in 1970, \$24-28 in 1975, \$28-32 in 1979, and \$36-40 in 1980. [Jomo (1988), p.121]

<sup>72</sup>The figure of 201,399 acres for 1970 looks odd. The possible explanation for this sudden increase in cultivation acreages is due to double counting for double-cropping of rice cultivation, which was common in rice statistics and continued to be so.

<sup>73</sup>See Malaysia (1971b). *Triennial Report of the Drainage and Irrigation Division for the Years 1968, 1969 & 1970*, Kuala Lumpur: Ministry of Agriculture and Rural Development, pp.111-5.

<sup>74</sup>Perak (1981), p.13.

<sup>75</sup>For example, Trans-Perak Irrigation Scheme and Krian Extension Scheme were to increase its double cropping area from 30,000 to 60,000 acres [Malaysia (1973a), p.142]

show the same result (see Table 6.6.2). The increase in output from 208,147 metric tonnes in 1971 reached its peak in 1974 with 264,021 metric tonnes before declining again. The period 1978-1980 even saw Perak's annual padi output fall below that of 1971 despite the larger cultivation area.

Coconut and cocoa were the two remaining crops that had a significant impact on the agricultural land use pattern of the state (see Table 6.6.1). Primarily concentrated in Hilir Perak, Manjung, and Krian, the 1970-1980 period saw coconut and cocoa cultivation increase their acreages by 24,806 and 54,825 respectively.<sup>76</sup> It is interesting to note that smallholders were dominant in the cultivation of both these crops. In 1970 estates comprised 37,007 (33.4%) acres of coconut while the smallholders covered an area of 73,898 (66.6%) acres; in 1980 the estate coconut had decreased both in acreage and percentage to 31,614 acres (23.3%), and the smallholder area increased to 104,097 (76.7%) acres.<sup>77</sup> The decrease in estate cultivation was attributed to the switch to oil palm. In cocoa cultivation smallholders only represented 5% of the total cultivation area in 1970 but in 1980 had increased significantly to 53%.<sup>78</sup>

In the non-agricultural sector, Table 6.6.4 provides a broad comparative assessment of the changing land use pattern during the period.<sup>79</sup> The increase in the urban and associated areas clearly indicates the evolving development process in Perak, mainly comprising the enlargement of existing and the establishment of new towns and industrial estates; the

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<sup>76</sup>It is common practice that coconut cultivation is intercropped with cocoa on the same plot of land.

<sup>77</sup>Calculated from Perak Agricultural Department (1975), p.31; Perak Agricultural Department (1980), p.9.

<sup>78</sup>Ibid., p.34; Ibid., p.15.

<sup>79</sup>An equivalent complete data for 1980 were not available during data collection.

increase was concentrated mainly in the better developed regions which function as administrative, commercial, and industrial centres. Among the districts, Kinta and Larut Matang, each showed a 42% and 23% increase respectively, particularly in industrial areas.<sup>80</sup> Up to 1979 five out of the six industrial estates in Perak were located in these two districts, and a further 238 projects (82.4%) outside these industrial estates were also located in these districts.<sup>81</sup>

**Table 6.6.4 Perak: Selected non-agricultural land use, 1966 and 1974**

Land Use Category	1974 (acres)	1966 (acres)	Increase/ Decrease
Urban and associated areas	41,547	31,311	10,236
Tin mining areas	134,209	73,401	60,808
Other mining and quarrying areas	803	784	19
Grassland	87,640	226,551	-138,911
Forest	2,764,207	2,845,026	-80,819
Scrub forest	167,514	195,200	-27,686
Newly cleared land	118,221	53,644	64,577
Swamps	508,037	613,468	-105,431
Unused land	6,251	29,410	-23,159

Source: Collated from I.F.T. Wong (1974). *The Present Land Use of Peninsular Malaysia*, Vol. I, Ministry of Agriculture, p.394.

In the pre-1980 period mining remained an important element in the land use of the state. Concentrated mainly in the districts of Kinta, Batang Padang, and Larut Matang there was an increase in the tin mining area of 60,808 acres between 1966 and 1974, partly in response to its high price. The price of RM373 per *pikul* in 1957 increased continuously and reached its peak in 1980 at RM 2,159 per *pikul*.<sup>82</sup> The acreage of mining land had also increased to 144,766 acres by 1980.<sup>83</sup> Although the mining economy was primarily based on tin, iron ore and gold were also mined on a small scale in the state.

<sup>80</sup> Calculated from Wong (1974), pp.394-443.

<sup>81</sup> Perak (1981), Table 2-10, p.23.

<sup>82</sup> Jomo (1988), Table 6.1, pp.159-160.

<sup>83</sup> EPU, Perak (1986a), p.113.

The remaining categories of land use in Table 6.6.4 represent a very large portion of the state. Specific identification of the changes is difficult without actually scrutinising the detailed cartographic map of Perak during both years, which is beyond this study. A general comment will, however, be made. The bulk of both forest and scrub forest are located in the districts of Hulu Perak, Kuala Kangsar, and Batang Padang. For obvious reasons logging has been a principal economic activity in Perak and the huge reduction in forest was mainly attributed to this activity as well as for agricultural purposes.<sup>84</sup> Between 1971-1979 a total of 363 logging licenses for 389,399 acres had been issued by the state,<sup>85</sup> which produced 27.7 million cubic feet of timber.<sup>86</sup> The reduction in scrub forest by almost 30,000 acres between 1966 and 1974, which generally occurred at the edge of the forest, might suggest improvement in forest regenerating programmes, the rehabilitation of previously abandoned cultivation areas or new re-development schemes. These changes were also probably the reason for the reduction of grassland by almost 140,000 acres.

Swamps that are commonly associated with low-lying areas are a general feature in the west and southwestern parts of Perak. The reduction of 105,431 acres in swampland during the period suggests that extensive efforts had been carried out to reclaim these areas for agricultural activities and also the successful rehabilitation programme for abandoned padi land. Incidentally, this is also the region of the state that had seen

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Post-1980 however painted a different picture where both the tin price and acreage started to decline. In 1981 there was a sharp drop by about 56% in acreage to 64,375 acres; see Section 7.2.

<sup>84</sup>During the 1970-1979 period a total of 231,137 acres of forest reserve had been delineated for agricultural purposes. [Perak (1981), p.15]

<sup>85</sup>Ibid., Table 2-4, p.16.

<sup>86</sup>Economic Planning Unit, Malaysia (comp.)(1994), Table 10 (unpub.).

extensive development of padi, oil palm, and coconut cultivation. As for the increase in newly cleared land it obviously suggests that these areas had been prepared for development, either agricultural or non-agricultural, where identification was not possible at the time of the survey.

Throughout the whole period of 1957 to 1980 the agricultural sector emerged as the single largest contributor to the changing land use pattern. Oil palm became the most important crop. The three-fold increase in acreage and even more in production is evidence of this. With the exception of rubber, the cultivation of padi, coconut, and cocoa continued to expand and what is more important is the massive involvement of smallholders in the agricultural sector.

The government's role in achieving this progress was vital. Apart from providing the necessary development infrastructure, it was the participation of the government agencies in developing land schemes that helped expand the agricultural economy. However, agricultural expansion for a state like Perak has its limits. According to the 'Land Capability Classification Report: State of Perak 1969',<sup>87</sup> potential land for agricultural development totalled 607,000 acres. Deducting the land alienated for agricultural development between 1971 and 1979 the state was left with about 274,000 acres for future expansion. With the declining trend in suitable land availability, the optimisation of land use, particularly with the use of new technology, therefore, became an important issue for the state.

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<sup>87</sup>Perak (1981), p.11.

The rapid depletion of potential agricultural land was also an important factor that compelled the state towards industrialisation. The emergence of state-sponsored industrial estates and the encouragement of industrial projects in the 1970s clearly showed the government's commitment towards industrialisation. However, in contrast to the agricultural sector, the development in the industrial sector was restricted to a few districts thereby widening the development gap between different regions within the state.

## **6.7 Changing labour utilisation**

This chapter so far has reviewed and reflected on the various changes that have taken place in post-independence Perak up to 1980 focussing on economic growth and diversification issues, and specifically the initiatives of the state in accelerating growth via the establishment of state agencies. These initiatives and policies resulted in changing land use patterns. This section will examine changes in the labour utilisation patterns, another aspect of the impact of state initiatives in economic development.

Examining the change in population in Perak during the period provides a starting point before scrutinizing the transformation, which underlies these figures. In 1957, the population of the state was 1.221 million; it increased to 1.569 million in 1970, and in 1980 to 1.805 million (see Table 6.7.1). Therefore, the population grew by about 48% but the percentage change in 1957-1970 was much higher than 1970-1980 at 28.5% and 15.1% respectively. This increase that comprised mainly natural growth rather than immigration is indicative of the increase in the availability of labour in the state.

**Table 6.7.1 Perak: Urban and rural population,<sup>88</sup> selected years**

Sector	1957		1970		1980		Change (%)		
	('000)	%	('000)	%	('000)	%	1957-1970	1970-1980	1957-1980
Urban	305.4	25.0	432.3	27.6	581.3	32.2	41.6	34.5	90.3
Rural	916.0	75.0	1,136.8	72.4	1,223.9	67.8	24.1	7.7	33.6
<b>Total</b>	<b>1,221.4</b>	<b>100.0</b>	<b>1,569.1</b>	<b>100.0</b>	<b>1,805.2</b>	<b>100.0</b>	<b>28.5</b>	<b>15.1</b>	<b>47.8</b>

Sources: Department of Statistics, Malaya (1959a). *Population Census 1957*, Report No.14, pp. 1-2; EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, p.15; Department of Statistics, Malaysia (1980). *General Report of the Population Census 1980*, Vol.2, pp.1-2.

Another trend was the gradual increase in the distribution of the urban population from a quarter in 1957 to almost a third in 1980 of the total population either as a result of the expansion of existing towns and cities or the establishment of new urban areas. The growth in the urban population during 1957-1980 suggests that it increased to almost three times (90.3%) of the rural population (33.6%). The growth in the urban population was balanced by a corresponding decline in the rural population; and the period 1970-1980 shows a significant change when the urban population grew almost four-and-a-half times more than the rural sector. A basic assessment can therefore be made of labour availability and utilisation linked to population growth. There was a clear shift of labour from the rural to the urban sector. Whether this shift was the result of more employment opportunities created by intensified economic activities in the urban sector or the establishment of many economic projects in rural areas, which resulted in new urban growth, needs more detailed consideration. These changes will be examined through data in Tables 6.7.2 and 6.7.3 that follow.

The agricultural industry has been the mainstay of economic activity in Perak since the pre-colonial period. Although this category, according to census reports, comprises

<sup>88</sup>Urban is defined as gazetted areas with a population of 10,000 or more persons at the time of the census.



**Table 6.7.2 Perak: Labour force distribution 1957-1980, selected years**

Sector	1957		1970		1980	
	('000)	%	('000)	%	('000)	%
<b>Primary</b>						
Agriculture, forestry and fishing	219,008	52.8	215,800	47.5	215,297	37.7
Mining and quarrying	30,052	7.2	31,018	6.8	26,054	4.6
<b>Secondary</b>						
Manufacturing	25,090	6.1	39,642	8.8	67,835	11.9
Construction	12,664	3.1	9,175	2.0	26,965	4.7
<b>Tertiary</b>						
Electricity, gas and water	3,032	0.7	4,267	0.9	1,719	0.3
Wholesale and retail trade, and restaurants and hotels	37,108	8.9	46,698	10.3	72,256	12.6
Transport, storage and communication	10,372	2.5	12,193	2.7	18,720	3.3
Finance, insurance, real estate and business services	1,314	0.3	*	*	7,636	1.3
Community, social and personal services	63,980	15.4	77,541	17.1	112,259	19.6
Others (Not adequately known)	12,346	3.0	17,902	3.9	23,134	4.0
<b>Total</b>	<b>414,966</b>	<b>100.0</b>	<b>454,236</b>	<b>100.0</b>	<b>571,875</b>	<b>100.0</b>

Sources: Department of Statistics, Malaysia (1959b). *Population Census 1957: State of Perak*, Report No.8, pp.59-63; Perak (1981). *Rancangan Malaysia Keempat Negeri Perak 1981-1985*, Table 4-10, p.79; EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, p.25.

Note: \* These figures have been included under 'Wholesale and retail trade, and restaurants and hotels'.

**Table 6.7.3 Perak: Changes in labour force distribution 1957-1980 (percent)**

Sector	1957-1970	1970-1980	1957-1980
Agriculture, forestry, and fishing	-1.5	-0.2	-1.7
Mining and quarrying	3.2	-16.0	-13.3
Manufacturing	58.0	71.1	170.4
Construction	-27.6	193.9	112.9
Services	21.5	51.1	83.6

Source: Calculated from Table 6.7.2 above.

Note: Apart from 'Others' in Table 6.7.2 all other industries have been re-categorised under 'Services'.

agriculture, forestry, and fishing, the participation of labour in the latter two industries was insignificant compared to agriculture. For example, in 1957 the labour participation from both forestry and fishing constituted only about 8% of the primary sector; almost two-thirds of that 8% were in the fishing industry.<sup>89</sup> This trend did not change much during the next two decades. The labour force in the agricultural industry therefore

<sup>89</sup>Calculated from Department of Statistics, Malaysia (1959b), p.59.

comprised the largest proportion in the primary sector. There were 219,008 workers in 1957 which thereafter experienced a decline and stabilisation to 215,800 in 1970 and 215,297 in 1980. These statistics obviously raise certain issues since government fiscal policies had been very generous towards agriculture in attempting to raise incomes as well as to increase labour participation. Aside from the funds allocated by the federal government and other complementary state expenditure on rural development, the state alone spent in excess of RM86 million for the development of agriculture during the 1971-1980 period.<sup>90</sup> However, the increase in labour participation in this sector did not materialise because of technological and capital intensification and migration drift to other occupations.<sup>91</sup>

We have seen in the previous section the government's vigorous initiatives that led to the establishment of various agencies, especially to promote agriculture. A total of 333,353 acres were alienated for agricultural purposes between 1970-1979 of which 180,167 acres (54%) were alienated to government agencies<sup>92</sup> to establish land development schemes. For economic reasons, these schemes were later distributed to agricultural settlers in the form of individual parcels, each measuring about six acres for padi cultivation, or ten acres for rubber or oil palm cultivation.<sup>93</sup> As also indicated in the previous section the interest in padi development had been nominal compared to that in rubber and palm oil. On the basis of these figures, the land schemes should have attracted at least 18,000 new

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<sup>90</sup> Agricultural development expenditure during 1971-1975 and 1976-1980 was RM62.17 million and RM26.18 million respectively. [Perak (1976), Table 1-4, p.10; Perak (1981), Table 5-1, p.114]

<sup>91</sup> The government projected labour participation in the agricultural sector to increase to 245,000 in 1980. [Perak (1981), Table 4-10, p.79] Rapid population growth and the stagnation of agriculture seem to be the most severe problems of newly independent countries in South and Southeast Asia during the period. [Gunnarson, C. (1979). *Malaysian Rubber Production: Patterns of Growth 1900-1975*, Ekonomisk-Historiska Institutionen, Lund Universitet, No. 6, p.52]

<sup>92</sup> See Table 6.6.3 in Section 6.6.

<sup>93</sup> Perak (1981), p.44.

settlers/labour participating in the agricultural sector during the period. Furthermore, coupled with the 153,186 acres of new land alienated to individuals for agricultural purposes, the target of increasing labour from 215,800 in 1970 to 245,000 in 1980 seemed easily achievable. However, the fundamental reason for failure to achieve this goal was that those awarded land for agricultural purposes, either through schemes or individual grants, were already in this sector in the first place and, therefore, no added labour was generated.

What emerged in the agricultural industry during the pre-1980 period was mainly the result of the redistribution of the existing labour force within the same sector. The attraction of more commercially viable crops that commanded healthier demand and better prices encouraged farmers to cultivate them, even without government-funded initiatives. Despite continuous population growth the agriculture was unable to absorb any increase in labour; instead labour surplus was on the increase. However, on the positive side, due to technological change and innovation, in general, there were improved efficiencies in crop production. The decline of 1.7% in the agricultural labour force during the 1957-1980 period did not affect output and the sector's share of the state GDP increased by 53% from RM486.2 million in 1970 to RM744.2 million in 1980.<sup>94</sup> Productivity per capita from this sector too had increased from RM2,253 to RM3,456 respectively.<sup>95</sup> While the labour force in this sector was declining, productivity had improved markedly suggesting better income for the agricultural labour force in general.

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<sup>94</sup>EPU, Perak (1986a), p.36.

<sup>95</sup>Forestry and fishing industries included.

In the primary sector, apart from agriculture, the mining industry suffered more in terms of labour utilisation. The once largest producer of tin in the world had seen the mineral fast depleting. Although during the 1957-1980 tin remained an important export commodity in Perak, the remaining deposits left were only extractable using modern mechanisation techniques, particularly dredges that require high capital investment. Driven by the world demand and high price of the commodity, modern tin mining operations meant reduction of labour was inevitable. This period, particularly in the 1970s, also saw a large reduction in the number of tin mines<sup>96</sup> due to high production costs which resulted in a considerable number of layoffs of workers. By 1980 the mining industry had lost a total of about 4,000 jobs or 13.3% compared to 1957.

With both agriculture and tin mining in the primary sector beginning to lose momentum in providing adequate employment opportunities, and together with the increasing number of working-age population in the state, the only choice was to give more emphasis to the development of the labour intensive secondary and tertiary sectors and to channel the surplus labour in that direction. Championed by the federal government and followed by the state, the commencement of the ISI programme in 1958 and the EOI programme in 1970 created the mechanism to alleviate the labour surplus crisis. Under the ISI programme the state encouraged new manufacturing industries as evidenced by the increase of 58% or almost 15,000 jobs during 1957-1970. The ISI, at its tail end, and EOI programmes functioning side by side in the 1970-1980 period provided more than 28,000 additional jobs for the state. In total, during the 1957-1980 period, manufacturing industry had succeeded in providing an increase of 170.4% or an addition of more than

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<sup>96</sup>See Section 7.4.

42,000 jobs. These industrial activities comprised mainly food production, simple machinery, electrical and electronic products, textiles, chemicals and non-metallic products. Although they were located primarily in the Kinta and Larut Matang districts,<sup>97</sup> there were also manufacturing industries situated away from these urban locations. Up to 1979 a total of 51 manufacturing plants were operating outside these popular urban areas with the Dindings and the Teluk Anson/Bidor areas emerging as the most important.<sup>98</sup>

In construction, another industry in the secondary sector, the shift in the labour force during the pre-1980 period had mixed outcomes. The 1957-1970 period saw labour utilisation slump by almost 3,500 jobs or 27.6% but it recovered in the 1970-1980 period when the industry was able to absorb a total of almost 18,000 jobs. The slump in the 1957-1970 was due to the decline in projects for the industry. Although this period saw development activities relating to improvements in state infrastructures and rural development, it was also a time when most of the projects were carried out in-house by the public sector leaving the construction industry dependent on the sluggish private sector projects. This scenario changed in the 1970-1980 period when manufacturing was intensified, offering more opportunities for the construction industry; at the same time outsourcing of government projects to the private sector had also increased. The state government's announcement of the need to build more than 67,000 units of houses during the 1976-1980 period further boosted the industry and the labour requirements.<sup>99</sup>

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<sup>97</sup>See Section 6.6.

<sup>98</sup>Perak (1981), Table 2-10, p.23.

<sup>99</sup>Ibid., p.28.

The demand for labour in the tertiary sector consistently grew between 1957 and 1980. During the period labour utilisation in this sector almost doubled from 115,806 in 1957 to 212,590 in 1980, growing twice as fast in the 1970-1980 compared to the 1957-1970 period. The enormous rise was in tandem with the sector's contribution to the state GDP where it grew from RM628.3 million in 1970 to RM1,225 million in 1980.<sup>100</sup> The growth in labour utilisation in this sector was mainly to support accelerated economic development, particularly in the secondary sector, and to increasing government involvement in the economy through the establishment of public sector agencies and other support services.

While the changes in labour utilisation have been presented, the changes among the ethnic groups invite further scrutiny. A direct comparison of the ethnic groups in labour distribution during the colonial cannot be carried out as categorisation of industrial sectors was different and limited to only three sectors.<sup>101</sup> However, clear changes can be seen in the labour force distribution by sector and ethnicity from 1957-1980 (see Table 6.7.4). In the primary sector, there was a reduction in the ethnic participation rate in agricultural activities among all the main groups.<sup>102</sup> The *bumiputera*, who had 70.2% of its population involved in this sector in 1957, had gradually declined to 67.2% in 1970, and later to only 51.3% in 1980; the Chinese had decreased its participation from 36.0% of its population in 1957 to 21.5% in 1980, and the Indian from 52.4% in 1957 to 42.1% in 1980.

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<sup>100</sup> Calculated from EPU, Perak (1986a), p.36.

<sup>101</sup> See Appendix 7.

<sup>102</sup> The reduction in the percentage involvement ratio in industrial sectors does not necessarily mean a reduction in the total labour involved because of the increase in population.

There were no significant changes in the mining and quarrying sub-sector among the *bumiputera* and the Indians. The Chinese population, however, decreased drastically from 12.6% in 1957 to 6.8% in 1980. These decreases in the primary sector, at the very least, reveal that the interest of workers in these two sectors was changing as were the opportunities and they were moving towards other areas of employment.

**Table 6.7.4 Perak: Labour force distribution by sector and ethnicity, 1957-1980  
(percent)**

Sector	<i>Bumiputera</i>			Chinese			Indians		
	1957	1970	1980	1957	1970	1980	1957	1970	1980
<b>Primary</b>	<b>72.8</b>	<b>69.8</b>	<b>54.1</b>	<b>48.6</b>	<b>40.1</b>	<b>28.3</b>	<b>56.7</b>	<b>54.5</b>	<b>45.5</b>
Agriculture, forestry, hunting and fishing	70.2	67.2	51.3	36.0	28.5	21.5	52.4	50.5	42.1
Mining and quarrying	2.6	2.6	2.8	12.6	11.6	6.8	4.3	4.0	3.4
<b>Secondary</b>	<b>4.3</b>	<b>3.9</b>	<b>9.4</b>	<b>16.7</b>	<b>19.1</b>	<b>24.7</b>	<b>12.5</b>	<b>4.6</b>	<b>15.1</b>
Manufacturing	2.7	3.4	7.6	12.7	15.3	16.4	8.7	3.6	11.7
Construction	1.6	0.5	1.8	4.0	3.8	8.3	3.8	1.0	3.4
<b>Tertiary</b>	<b>19.7</b>	<b>21.6</b>	<b>33.0</b>	<b>31.8</b>	<b>37.6</b>	<b>42.2</b>	<b>28.1</b>	<b>36.8</b>	<b>35.5</b>
Utilities	0.5	0.8	0.3	0.4	0.5	0.2	1.6	2.6	0.6
Wholesale and retail trade, and restaurants and hotels	2.6	3.4	5.6	14.8	16.0	21.4	7.5	7.9	9.1
Transport, storage and communication	1.5	1.8	2.0	2.9	3.2	4.3	3.3	3.7	4.2
Finance, insurance, real estate and business services	0.0	0.3	0.9	0.4	0.9	1.7	0.7	1.1	1.6
Community, social and personal services	15.1	15.3	24.2	13.3	17.0	14.6	15.0	21.5	20.0
<b>Others</b> (inadequately described or unknown)	<b>3.2</b>	<b>4.7</b>	<b>3.5</b>	<b>2.9</b>	<b>3.2</b>	<b>4.8</b>	<b>2.7</b>	<b>4.1</b>	<b>3.9</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Appendix 7.

In the secondary sector, participation by ethnicity in manufacturing showed a continuous increase for all groups. For the period 1957 to 1980, the *bumiputera* had increased from 2.7% to 7.6% of its total population, the Chinese from 12.7% to 16.4%, and the Indians from 8.7% to 11.7%. In the construction sub-sector all three ethnic groups show a common trend i.e. their participation decreased in the 1970s before recovering to about the same or even a higher level. Around 1970 the construction sub-sector faced a

downturn. During the 1957-1980 period the *bumiputera* and the Indians did not show any significant changes in their involvement in the construction sub-sector. The Chinese, however, had more than doubled in their participation rate from 4.0% in 1957 to 8.3% in 1980. The increase in the secondary sector, as a whole, was largely attributed to the increase in the manufacturing rather than the construction sub-sector.

From 1957 to 1980, the tertiary sector was the second most important after the primary sector in terms of labour utilisation. During the period, the *bumiputera* increased from 19.7% in 1957 to 33.0% in 1980, the Chinese from 31.8% to 42.2%, and the Indians from 28.1% to 35.5%. The large increase in *bumiputera* participation came from the sub-sector of community, social and personal services. For the Chinese, wholesale and retail trade, restaurants and hotels saw the largest increase in their participation. There were no significant changes in the participation rate amongst the Indians in any specific sub-sector, though there was general increase across all the sub-sectors.

Therefore, the labour utilisation pattern of Perak during the period under examination was fast changing. Data suggest significant intersectoral transfers of labour from agriculture to other sub-sectors. The decline of the mining industry suggests a shift either towards manufacturing, construction or the service industries, as these were the growing economic activities in the districts where tin mining was prominent. A small, insignificant number possibly moved into market gardening, as this was quite a popular economic activity in mined-over areas in Kinta. During the period, as elsewhere in Malaysia, the additional entry of previously under-utilised women workers helped



explain part of the increase in the labour market.<sup>103</sup> In 1970 the female population in Perak stood at 49.9% and experienced a further increase to 50.6% in 1980.<sup>104</sup> The changes in rural lifestyle, improved education, and also the stagnant agricultural demand for labour provided the push factor that facilitated the state's ISI and subsequently EOI programmes to channel surplus labour into the secondary and tertiary sectors. The shift of labour towards these sectors required the intra-migration of labour towards established economic centres such as those surrounding Ipoh and Taiping. Despite the achievement in shifting labour surpluses into new economic sectors and improving the state's economy, success was still modest. The creation of new jobs did not match the labour increase. Although the unemployment rate of 9.0% in 1970 had decreased to 7.7% in 1980, the reduction was minimal.<sup>105</sup> At the same time the inability to provide sufficient job opportunities resulted in Perak being consistently a 'net-loss state', with a continuous out-migration of valuable labour to other states.<sup>106</sup> During this period, however, Perak managed to broaden its economic base into new economic sectors capable of responding to the market and provide the state with an 'insurance' and foundation for further economic growth.

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<sup>103</sup>Labour participation rates for women in Peninsular Malaysia rose from about 30% in 1957 to 46% in 1987 [Drabble (2000), p.248]; Jomo arrived at a different set of figures: 24.6% in 1957, 30.2% in 1970, and 32.4% in 1980. [Jomo (1988), Table 11.1, p.291]

<sup>104</sup>EPU, Perak (1993), p.11.

<sup>105</sup>Department of Statistics (1980), Summary Table 1, p.3.

<sup>106</sup>Between 1975-1980 the state had a net population out-migration of 158,080. [EPU, Perak (1986a), p.31; see also Jones, G. W. and Manjit Singh Sidhu (1979). 'Population Mobility in Peninsular Malaysia' in *Development Forum*, Vol. IX, No.2, December]

## 6.8 Local and foreign investment

There was a clear shift in the structure of investment in the state economy since independence. The heavily concentrated colonial economy based on the export of primary products had gradually been diversified to include other commodities such as palm oil and cocoa, and also the branching out from the primary sector to the secondary and tertiary sectors. These transformations have been shown in the preceding sections involving land use and labour utilisation. The key driver in these changes was the government economic policies to promote economic growth initiated through the Second and Third Malaysia Plans. Although rural development, particularly agriculture, remained an important feature in the state economic history since 1957, diversification into new areas was inevitable with the growing labour force. In the pre-1980 period the ISI and EOI programmes had largely influenced the state in its attempts to achieve economic growth.<sup>107</sup> It was these programmes that had a large influence in the promotion of investment in Perak that will be examined in this section.

In promoting economic growth the largest investor in Perak during the pre-1980 period was the government, both at the state and federal levels. Besides rural development, which played a central part in economic development initiatives prior to 1970,<sup>108</sup> the state, however, only began large-scale economic diversification into industrialisation in

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<sup>107</sup>From 1958 to 1970 the state economic policies were effectively driven by ISI and 1970-1980 by EOI programmes.

<sup>108</sup>Most data pertaining to pre-1970 economic achievement held at the State Economic Planning Unit have been disposed of to make space for new materials (personal communication with EPU chief librarian). However, for state and federal development in agriculture in the pre-1970, see Section 6.6.

1962 with the establishment of the 370-acre Tasek Industrial Estate in Ipoh.<sup>109</sup> With a combination of federal and state investment of RM20 million the industrial estate housed industries involved in the production of steel and concrete products, cement, steel and wooden furniture, chemicals, printing and newspapers. Some of these original companies such as Tasek Cement, Hume Industries, Chemical Industries, and Far East Oxygen and Acetylene are still in existence today. At the same time two other smaller industrial estates were developed by the state; one in Menglembu (70 acres) catering for light industries and another in Falim (7 acres) for cottage industries. Apart from these three industrial estates, state investment in the industrial sector had undergone a slow period of growth before picking up again towards the end of the 1960s.

During the 1971-1975 period (Second Malaysia Plan) the Government of Perak had invested a total of RM137.4 million in economic development expenditures (see Table 6.8.1).<sup>110</sup> Almost all (92.7%) of the development expenditure was directed towards agriculture and, infrastructure and services, with 45.3% and 47.5% respectively. Perak had spent only 1.5% of its development expenditure on the manufacturing sector. The low expenditure could be due to the availability of funds from the federal government for industrial estate development.<sup>111</sup> There was also a shift in operational policy where industrial development in Perak was entrusted to the PSDC. Industrial estate development financing since then was mainly carried out through loans either from the government or

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<sup>109</sup>See Ipoh Municipal Council (1962). *Ipoh: The town that tin built*, Phoenix Communications Limited, pp.56-8.

<sup>110</sup>Federal development expenditure in Perak during the same period totalled RM130.8 million. Out of this RM16.8 million (12.9%) were spent on housing, a new township, and industrial estates; the balance was spent on infrastructure and services. [Perak (1976), Tables III-3 & V-1, pp.23, 38] The total of both state and federal expenditures was RM268.2 million.

<sup>111</sup>*Ibid.* The federal government spent RM8.04 million during the period.

private capital. This was also a period when industrial development in Perak was already accelerating and when 259 manufacturing projects in various industries had been approved between 1968-1975.<sup>112</sup> The state's focus was also directed to other complementary development activities such as infrastructure and services.

**Table 6.8.1 Perak: Economic development expenditure by sector 1971-1975 (RM million)**

Sector	Expenditure	%
Agriculture	62.17	45.3
Manufacturing	2.09	1.5
Construction	6.65	4.8
Commerce	1.25	0.9
Infrastructure and services	65.24	47.5
Total	137.4	100.0

Source: Collated from Perak (1976), Tables I-4, III-3, IV-1, pp. 10, 23, 29.

State direct involvement in the construction industry during the 1971-75 period totalled RM6.65 million (4.8%). This was largely the provision of housing for the lower income groups of the population. Commerce, however, was the lowest with RM1.25 million (0.9%) spent over the 5-year period indicating the state's preferred approach of providing the infrastructure and a viable investment environment but not being directly involved in this sector. This approach however changed in later years.

In the 1976-1980 period the state government spent a total of RM240.29 million in development expenditure.<sup>113</sup> Against a state allocation of RM476.37 million Perak's achievement for the period was only about 51%. In total, however, including those allocations from the federal government, the development expenditure for Perak during this period (Third Malaysia Plan) was RM1.79 billion; economic development expended

<sup>112</sup>Calculated from Tables 6.8.3 and 6.8.4.

<sup>113</sup>Perak (1981), Table 3-1, p.60.

RM1,129.9 million (63.1%), social development RM226.2 million (12.6%), defence RM395.3 million (22.1%), and administration RM40.4 million (2.2%).<sup>114</sup> Comparative assessment is not possible, as the economic expenditure category does not provide the breakdown between industries as in the previous period.<sup>115</sup> What was available, however, was the reduction in state expenditure for agriculture by almost two-thirds to RM21.79 million during this period.<sup>116</sup> It is suggested, however, that since this period saw the substantial expansion of state enterprises involved in various industries,<sup>117</sup> part of the state economic development expenditure was also directed towards these enterprises for start-up capital and operations.

The industrial investment in manufacturing from the private sector began to accelerate again in the late 1960s after losing momentum during the middle of the decade. The PIO of 1958, introduced to encourage local and foreign investment in industries to produce items previously imported, failed to attract continuous investment. Although it provided tax relief for varying lengths of years depending on the size of investments, import-substitution industrialisation had its limit. High capital investment with a small national market demonstrated that the incentives were not attractive enough to encourage industrial investors. The decline in the industrialisation momentum in the Kinta Valley mentioned at the beginning of this section is evidence of its limitations. On a national

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<sup>114</sup>EPU, Perak (1991a). *Taklimat Pembangunan Negeri Perak Darul Ridzuan*, Ipoh, September, p.10.

Federal budget allocations to all states since the mid-1970s have been generous due to the large increase in revenue from petroleum exports. [Drabble (2000), p.199] Between 1973-1974 the petroleum price rose from RM70 to RM214 per ton and 1978-1980 from RM245 to RM596. [Dhanji et. al. (1983), *Malaysia: Structural Change and Stabilization*, Washington: World Bank, p.109]

<sup>115</sup>The state development expenditure for 1976-1980 was categorised by state departments.

<sup>116</sup>*Ibid.*

<sup>117</sup>See Section 6.5.

scale the same situation emerged.<sup>118</sup> It was due to this decline that the Investment Incentives Act (IIA) was introduced in 1968 to provide a greater variety of incentives to induce funding flows into existing and new industries, particularly from foreign investors. These added incentives provided by the IIA saw private sector investment begin to rise again. During the period 1968-1980 the Malaysian Industrial Development Authority (MIDA) approved a total of 436 industrial projects in Perak (see Table 6.8.2).<sup>119</sup> These were considered large-scale manufacturing projects engaging more than 25 employees and had paid-up capital in excess of RM250,000 for each establishment.

**Table 6.8.2 Perak: Distribution of approved industrial projects by incentives 1968-1980**

Incentive	No. of projects	%
Pioneer status	148	33.9
Investment tax credit	60	13.8
Labour utilisation concessions	9	2.1
Other incentives	10	2.3
Without incentives	209	47.9
Total	436	100.0

Sources: Collated from MIDA in Perak (1981). *RME*, Table 2-7, p.19; MIDA, Perak in EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, p.90.

Although statistics pertaining to smaller scale manufacturing projects that did not require approval from the federal body are non-existent, it is believed to be more than those approved by MIDA during the period, influenced by the buoyant industrial expansion. About half of these MIDA-approved industrial projects were granted some form of incentives. The other half were approved but were not granted any incentive either because no application was made or they did not qualify as requirements were not met.

<sup>118</sup>Courtenay, P. P. (1972). *A Geography of Trade and Development in Malaya*, London: G. Bell & Sons Ltd, p.4.

<sup>119</sup>There are no statistics indicating the actual implementation of these projects in Perak in the pre-1980 period. In a study of foreign direct investment in the Malaysian industrial sector it was estimated that 20-25% of the approved projects were never actually realised. [Anuwar et. al., 'Direct Foreign Investment in the Malaysian Industrial Sector', in Jomo, K. S. (ed.) (1993). *Industrialising Malaysia: Policy, Performance, Prospects*, London: Routledge, p.81]

Although the IIA, in principle, was to provide better incentives to attract investment and a platform for the nation to embark on the EOI programme, the establishment of industrial projects approved in Perak showed that although EOI had made considerable inroads by 1980, ISI-related projects also continued to receive considerable interest (see Table 6.8.3). It is plausible to suggest that most of the ISI-related industrial projects in the 1970s mainly consisted of local investors. Food manufacturing, comprising about a fifth of the projects approved, was mainly for domestic consumption. Products from wood-related industries, basic metal industries, and printing and its allied industries too were not known for export but rather were being used within the country. However, those industries related to the production of metal and non-metal products, machinery, electrical and electronics, textiles and leather, and chemicals had entered the export list of Perak. Although these industries represented almost two-thirds of the total approved projects, not all of the production was exported, as some share of it was used domestically.

**Table 6.8.3 Perak: Distribution of approved industrial projects by industry  
1968-1980**

Industry	No. of projects	%
Food Manufacturing	91	20.9
Metal products, machinery, electrical and electronics	74	17.0
Textiles and leather products	67	15.4
Chemicals and chemical products	66	15.1
Non-metal products	47	10.8
Wood related products	27	6.2
Basic metal products	14	3.2
Tourism related industries	6	1.3
Printing, publishing and allied industries	7	1.6
Miscellaneous manufacturing industries	37	8.5
<b>Total</b>	<b>436</b>	<b>100.0</b>

Sources: Collated from Perak (1981), Table 2-6, p.19; MIDA, Perak in EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, p.86.

While investment in the manufacturing sector, as shown above, is in terms of development and expansion of industries, it is difficult to ascertain its actual value or the total investment in the industrial sector in the pre-1970 period. There was no comprehensive collection of data, either by the public or the non-public sector, on the flow of private sector investment in the state.<sup>120</sup> The period 1971-1980 shows that the total investments for the approved manufacturing projects in Perak was RM1,509.8 million (see Table 6.8.4). Distinguishing between the two Malaysia Plans at this time, 207 projects were approved during the second (1971-1975) and 177 projects during the third (1976-1980), each bringing in an investment of RM620.1 million and RM889.7 million respectively. Despite having fewer projects during the latter period the higher amount of investment suggests that the kind of manufacturing industries approved were more capital intensive in nature and involved a high level of production for export.

**Table 6.8.4 Perak: Approved industrial projects and total investment 1971-1980**

Year	No. of approved projects	Total investment (RM million)
1971	17	49.1
1972	24	11.6
1973	52	87.8
1974	56	229.4
1975	58	242.2
1976	36	87.1
1977	36	126.1
1978	34	36.5
1979	37	496.3
1980	34	143.7
<b>Total</b>	<b>384</b>	<b>1,509.8</b>

Source: MIDA in EPU, Perak (1996). *Taklimat Pembangunan Perindustrian Negeri Perak*, Table 3.

<sup>120</sup>Efforts towards the gathering of investment data were first carried out by MIDA in 1971 and later joined by PSDC in 1980. Even then it is still not comprehensive until 1980 onwards.



While the proposed total capitalisation of industrial projects in the 1971-1980 period totalled RM1,509.6 million, the data on the divisions between local and foreign capitalisation on these approved projects were only available from 1976 as shown in Table 6.8.5 below. From 1976-1980, the total investment in the industrial sector was RM889.7 million of which 304.8 million (34.3%) comprised equity and RM584.9 (65.7%) million loans. With 177 industrial projects approved during the period, RM177.1 million (58.1%) of the equity came from local investors while RM127.7 million (41.9%) was from foreign investors. Loans provided for these projects came from both local and foreign capital.

**Table 6.8.5 Perak: Approved industrial projects and equity investments 1976-1980**

Year	Total number of projects	Equity Investment (RM million)		
		Local	Foreign	Total
1976	36	38.5	3.5	42.0
1977	36	35.7	8.9	44.6
1978	34	15.2	5.8	21.0
1979	37	45.6	94.7	140.3
1980	34	42.1	14.8	56.9
<b>Total</b>	<b>177</b>	<b>177.1</b>	<b>127.7</b>	<b>304.8</b>

Sources: Perak (1981), Table 2-9, p.21; MIDA in EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, p.92, 103.

In 1980 the local-foreign investment distribution became clearer.<sup>121</sup> During the year from the RM143.7 million (see Table 6.8.4) of industrial investment capitalisation, RM86.6 million was from loans; RM56.7 million (65.3%) was raised within the Malaysian capital market while RM30.1 million was from foreign loans.<sup>122</sup> Together with equity participation the total capitalisation from local investors stood at RM98.8 million (68.8%) and foreign direct investment at RM44.9 million (31.2%).

<sup>121</sup>For detailed local-foreign investment distribution from 1980 onwards, see Section 8.7.

<sup>122</sup>PSDC documents (unpublished).

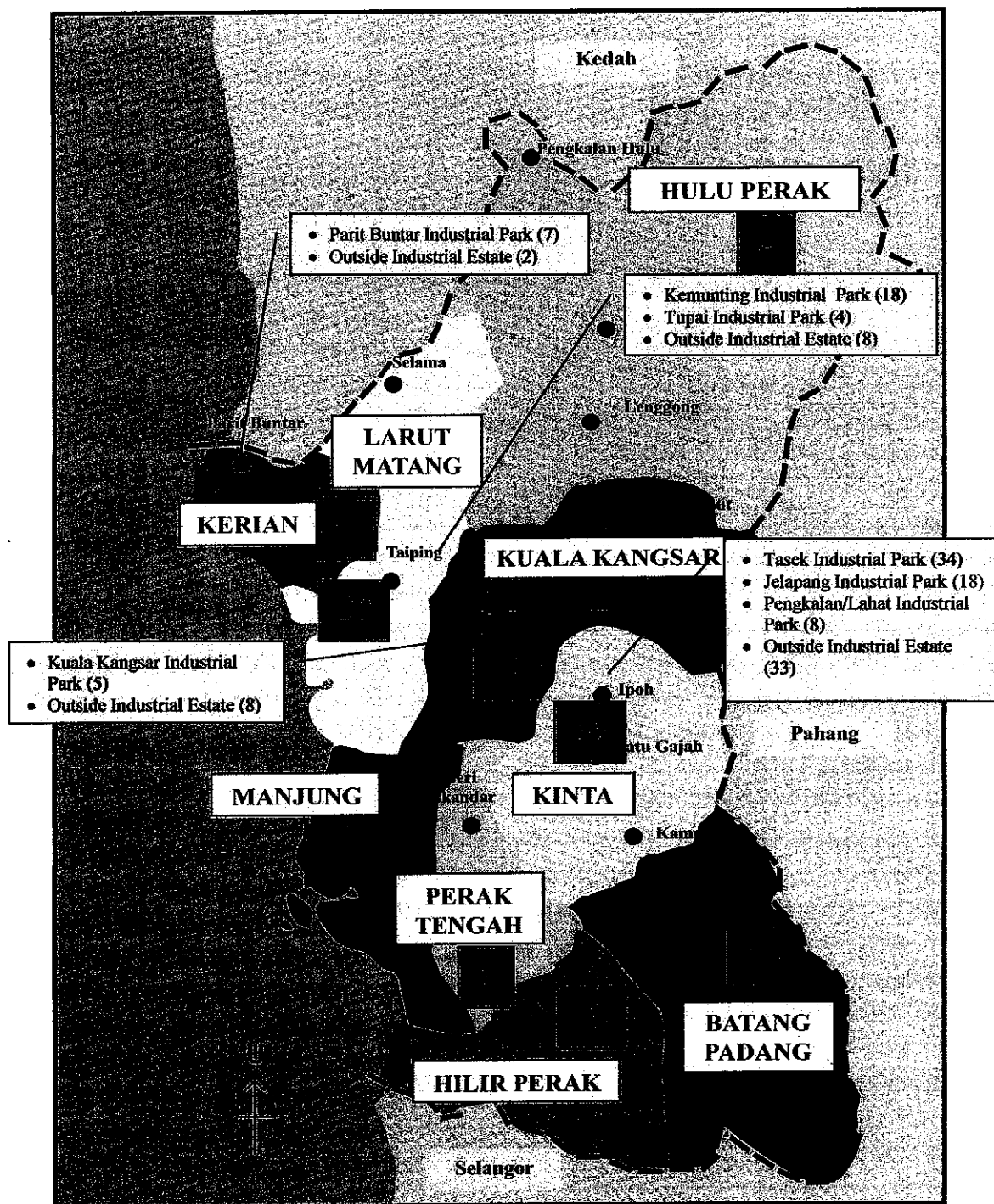
**Table 6.8.6 Perak: Locations of industrial projects approved between 1976-1980**

District/Industrial estate	No. of projects	Percentage (%)
<b>Kinta District</b>	<b>93</b>	<b>52.5</b>
- Tasek Industrial Park	34	19.2
- Jelapang Industrial Park	18	10.2
- Pengkalan/Lahat Industrial Park	8	4.5
- Outside industrial estate	33	18.6
<b>Larut Matang District</b>	<b>30</b>	<b>17.0</b>
- Kemunting Industrial Park	18	10.2
- Tupai Industrial Park	4	2.3
- Outside industrial estate	8	4.5
<b>Kuala Kangsar District</b>	<b>13</b>	<b>7.3</b>
- Kuala Kangsar Industrial Park	5	2.8
- Outside industrial estate	8	4.5
<b>Krian District</b>	<b>9</b>	<b>5.1</b>
- Parit Buntar Industrial Park	7	4.0
- Outside industrial estate	2	1.1
<b>Manjung District</b>	<b>5</b>	<b>2.8</b>
<b>Batang Padang District</b>	<b>7</b>	<b>4.0</b>
<b>Hilir Perak District</b>	<b>18</b>	<b>10.2</b>
<b>Hulu Perak District</b>	<b>2</b>	<b>1.1</b>
<b>Perak Tengah District</b>	<b>0</b>	<b>0.0</b>
Projects located in industrial estates	94	53.1
Projects located outside industrial estates	83	46.9
<b>Total</b>	<b>177</b>	<b>100.0</b>

Source: MIDA in EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, pp.86-7.

Kinta district in the attempt to provide a more geographically balanced development. The increased competition for labour in Kinta and the proximity to raw materials, such as the availability of kaolin in Batang Padang or timber in Hulu Perak, further helped disperse these industrial activities. During this period 52.5% of the 177 approved industrial projects were located in Kinta with about two-thirds sited within the three industrial estates. Larut Matang, Kuala Kangsar, and Krian districts that had started developing their industrial estates in the early 1970s began to enjoy industrial investment.

Almost a third of the approved industrial project investments during this period were directed to these districts. The districts of Manjung, Batang Padang, Hilir Perak and Hulu



**Map 6.8.1 Perak: Locations of industrial projects approved 1976-1980**

Perak succeeded in attracting 32 (18.1%) of these industrial projects despite lacking the appropriate industrial development infrastructure. The only district that failed to attract any industrial development project was Perak Tengah. The overall state industrial development during the period saw a balanced distribution of industrial investment projects between those located within (53.1%) and those outside industrial estates (46.9%), suggesting a shift in investors' preferences in terms of location.

So far, the investment data presented that cover those from the state and the private sector are limited to mainly manufacturing. In other economic sectors, no useful data have been found. However, an estimate will be attempted based on labour increase and the estimated investment per unit of labour in the selected sectors. Between 1970-1980 an estimated RM2,226 million was invested in the construction, transport, storage, communication, commerce, banking, and other services sectors in Perak (see Table 6.8.7). Local capital is believed to be the main source of investments in these sectors.

**Table 6.8.7 Perak: Estimated investment in selected sectors 1970-1980**

Sector	Labour force increase	Estimated investment per unit labour increase (RM)	Total investment (RM million)
Construction	17,790	6,000	106.7
Transport, storage and communication	6,527	90,000	587.4
Commerce and Banking	33,194	20,000	663.9
Other services	34,718	25,000	868.0
		Total	2,226.0

Sources: Labour force increase figures from Table 6.7.2; Estimated investment per unit labour from '*Kajian Wilayah Seberang Perak*' in Perak (1981). *RME*, p.79A.

While domestic capital could come from all over Malaysia, the available capital within Perak was capable of funding a large portion of these investments.<sup>125</sup> Apart from the construction sector, the other sectors are generally categorised as services, which in aggregate totalled RM2,119.3 million. If this estimate is reliable then the growth in the industrial sector had encouraged strong expansion in the service sector. Comparatively, the increase of investment in the service sector was much higher than the industrial sector at RM1,509.8 million (see Table 6.8.4) during the decade. Some caveat, however, has to be placed on the estimates, particularly on the reliance on labour force increase. This is important as no estimate can be made of those industries in which labour had declined during the period, particularly in the agriculture and the mining sectors. In contrast these sectors were also known to have utilised a large amount of private investment during the period, for example, the opening of new land and the switch from rubber to oil palm among private estates, and the use of new technology, particularly the dredge in the mining sector which was highly capital intensive.<sup>126</sup> This kind of investment has been omitted in the estimation exercise.

What has been presented in this section during the period 1957-1980 demonstrates the changes that have taken place in the investment climate in Perak. The aggregate total of all investments in the public and private sectors, however, could not be presented as methods applied in arriving at investment figures vary greatly from continuous data collection by the relevant authorities to pure estimation. Despite these shortcomings the

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<sup>125</sup>The deposits in commercial banks and finance companies in Perak had increased by almost five times from RM450.6 million in 1971 to RM2,189.3 million in 1980. [Bank Negara Malaysia in EPU, Malaysia (1994), Table 29 (unpublished)]

<sup>126</sup>A study by the International Tin Council quoted that the cost of a dredge in 1977 was RM25 million. [Thoburn (1981), p.117]

trend of investments is still evident. Heavy foreign investments as seen in the colonial period in rubber and tin mining industries had gradually declined. The need to actively diversify into other economic areas, envisioned by the state since 1957, was quite slow in implementation in the first decade. Except for the continuous investment by the state to promote economic development, investment from both the local and foreign sectors only began in the early 1960s and gained momentum later in the decade. Apart from local investment, the most apparent deciding factor for foreign investment was the incentives offered by the federal government. While the availability of labour and raw materials was also paramount in investment decisions, the added incentives could only improve viability and profitability for potential investors. In hindsight, Perak could have achieved more in promoting investment since it enjoyed the already available basic infrastructure left by the colonial government as compared to other states. The trend in investment, even though slow-moving in the beginning, gained momentum by 1980. However, when measured against the national performance, achievements were modest in terms of attracting foreign investment; between 1976 to mid-1979 Perak managed to attract only 4.5% of the total foreign equity in industrial projects in Malaysia.<sup>127</sup> Considering the economic development during the period when the majority of the states were still developing their basic infrastructure to promote growth through industrialisation, the bulk of the foreign investments were focused on Selangor and Penang.

Within the state, despite the failure in attracting a large amount of foreign investment, the pre-1980 period saw the growth of local investment in new economic enterprises. Local

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<sup>127</sup>Calculated from Perak (1981), Table 2-9, p.21. Within the same period, out of the 715 industrial projects approved with foreign involvement, only 43 (6.01%) were located in Perak.

investment of about two-thirds of the total capitalisation in the five years preceding 1980 is indicative of the willingness of local investors to take both the opportunity and risks created by the state's economic diversification strategy. While this development was encouraging there is a limit to the capacity of local investment. The expansion of investment in Perak therefore had to rely on foreign investors, which during this period was lacking. The need actively to pursue foreign investment then remained an important issue for Perak to address.

Failure to attract large investment into the state could also be partly attributed to the lack of new supporting infrastructure geared towards industrialisation. While it is true that Perak had taken some initiative to promote economic diversification, as evidenced by the establishment of six industrial estates before 1980, it is also clear that about half of those approved industrial projects opted to be located outside these estates. Reasons for doing so could be various but possibly investment by the private sector, particularly from foreign investors, could have been higher if, during the period, a customer-oriented industrial development approach had been adopted by the state. Even though the federal government had implemented a variety of incentive programmes to encourage investments, the challenge was for Perak to accelerate industrial development and to provide the appropriate environment for it.

## **6.9 Summary and conclusion**

During the period 1957-1980 the government played a major role in promoting changes in the economic and social structures of the state. One of its main priorities was the

gradual diversification from the primary sector to the secondary and tertiary sectors. The changes that took place, however, evolved in two distinct phases. The first covers the period 1957-1969 while the second 1970-1980. The need to distinguish these two phases separately is simply due to the introduction of the NEP in 1970 which changed the direction and the role of the state in managing the economy as a whole.

During the first phase, government policy was very much an extension of the British colonial legacy. The major exception, however, was the increased participation of federal and state governments and its agencies in developing the rural economy. This initiative can be seen as an attempt by the state to modernise what was considered to be the 'traditional', indigenous sector. It is acknowledged that during the colonial period, the attention given to the rural economy was there, however, it was limited and focused mainly on padi cultivation.

However, in the pre-1970 period, the state government of Perak adopted a broadly non-interventionist strategy in the economy. But the considerable state involvement in promoting the rural economy, particularly through land development schemes, began to mark the end of the free-market economic system and the beginning of a mixed-economy – a system combining free enterprise with active government support and direction. Promoting and establishing land schemes during that time seemed to be the answer to further state economic development. The economic system was then essentially divided into two separate spheres: extensive rural development was in the domain of the government whilst the very limited industrial sector was left mainly in private hands. The



state was also gradually moving away from its focus on tin mining, and focussing its attention on local agriculture.

The common sight of rubber gardens and estates in the agricultural landscape was fast supplanted by the rapid expansion of oil palm cultivation, which became the new 'most important' crop for the state. However, even with this greater emphasis on the rural sector the overall growth of agriculture in Perak was modest, achieving only about half of the national growth of 7.5% in the early 1970s.

In the period 1970-1980 the role of the state and the direction of the economy changed dramatically with the introduction of the NEP. With a clear objective of redistributing economic wealth to all ethnic groups, the NEP basically abandoned the competitive capitalism policy, and in its place the state played a much more direct role. State intervention in the economy became much more evident. Direct state participation took the form of capital provision, joint-venture partnerships and the establishment of state enterprises. These initiatives were intended, at some point, to be transferred to capable *bumiputeras*.

The radical change in economic approach during the two phases can also be seen in industrialisation policies. The state emphasis on ISI, initiated during the late colonial period, only lasted until the end of the first phase. From 1970 onwards economic policy emphasised EOI initiatives. The move towards EOI also meant the expansion of the secondary and tertiary sectors. Manufacturing, in particular, became the prime mover of

the economy. The growth of industrial estates and urban-based manufacturing also saw a huge shift in population from the rural to urban areas. Apart from agriculture, which saw only minor intra-industry shift within sub-sectors, the balance of the labour force had begun to move into secondary and tertiary sectors. However, the failure to create sufficient jobs had also forced quite a substantial number of workers to leave Perak in search of employment.

The two different economic approaches during 1957-1980 can also be seen in changes in the investment climate in Perak. Although the government was the largest investor in Perak during both phases, a much more visible change began to emerge during the second phase. Encouraged by the various incentives offered by the government, Perak saw an increase in private capital investment, though initially this was mainly from local investors. Only later did foreign capital gain momentum. At the same time, an improved distribution in terms of the spatial location of industrial investments can also be seen. With the reasonable level of success achieved through the NEP up to 1980 and the increasing involvement of the state in economic development, the next step was to increase foreign participation in Perak's industrial activities. I will return to this issue, among others, in Chapter 8 in examining the period 1981-2000.

## **CHAPTER 7**

### **THE DECLINE OF TIN MINING AND RUBBER CULTIVATION IN PERAK'S ECONOMY**

#### **7.1 Introduction**

In the previous chapter, the role of the post-colonial state in the development of Perak has been examined. Tin and rubber continued to be a vital revenue-generating vehicle for Perak for about two-and-a-half decades. Particularly with regard to rubber cultivation, which had once been the domain of private estates and smallholders, it saw expansion in the involvement of federal and state agencies, largely as part of the government's rural development programme, to raise the income and standards of living of the rural population. However, the dependence on two primary commodities to sustain development was not a viable option. This was particularly so when these commodities were traded in the global markets and were exposed to supply and demand and price volatility. An additional difficulty was present in the tin industry; apart from the gradual decline in production since the 1970s, tin is a non-renewable extractive industry. Yet, the tin industry finally collapsed due to other reasons and not to the exhaustion of supplies. In the rubber industry, generally unattractive market prices had forced diversification into other crops; this had already been undertaken gradually by the private estate sector during the colonial period. Crop diversification became more significant after independence, particularly in the 1980s and 1990s. The fluctuations in commodity prices and the establishment of international commodity agreements had a significant impact on Perak's economy and eventually witnessed changes in labour and land utilisation. These are the

issues that will be examined in this chapter in relation to the decline of tin mining and rubber cultivation.

## **7.2 The fluctuation in global tin and rubber prices**

In the world markets, the fluctuation in the prices of tin and rubber, although directly linked to supply and demand, was also closely associated with the International Tin Agreement (ITA) and the International Natural Rubber Agreement (INRA).<sup>1</sup> The ITA's main objective was clearly to keep the tin price stable, the INRA, on the other hand, concentrated more on the comprehensive buffer stock operations, which indirectly also meant trying to stabilize rubber prices. In the period 1957 to 2000, Perak suffered from commodity price fluctuations which affected state revenues and helped initiate the move to other crops and industries. The shift, however, was not entirely the result of price movements.

In the tin industry, the price fluctuation in the Kuala Lumpur Tin Market (KLTM) during 1957-2000 is shown in Table 7.2.1 below. With an annual average price of RM6.17 per kilogram in 1957, it hovered between RM6 to RM10 per kilogram during 1957-1973, before surging to a height of RM18.74 in 1974. It then experienced a slight decline in the following year before undergoing a continuous increase in price to reach an all-time high of RM35.70 per kilogram in 1980. From the price levels of 1957-1980 it can be deduced that Perak should not have faced any difficulty in revenue generation. In fact, state revenues from tin for further economic development purposes should have increased at

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<sup>1</sup>See Section 7.3 for more details.

least five-fold from 1957 if production had been kept constant, which was not the case. Perak tin production in 1957 stood at 36.1 thousand tonnes, dropped to 27.1 thousand tonnes for the next two consecutive years, before it began increasing almost continuously reaching a record level of 45 thousand tonnes in 1971 (see Table 7.2.2). However, since then tin production had declined and in 1980, only 35 thousand tones were produced.

**Table 7.2.1 Annual average tin prices 1957-2000**

Year	Price (RM/Kg)	Year	Price (RM/Kg)	Year	Price (RM/Kg)
1957	6.17	1972	10.36	1987	16.80
1958	6.11	1973	11.34	1988	18.49
1959	6.56	1974	18.74	1989	23.05
1960	6.51	1975	15.94	1990	16.45
1961	7.39	1976	18.96	1991	15.06
1962	7.40	1977	26.17	1992	15.25
1963	7.53	1978	28.69	1993	13.09
1964	10.24	1979	32.39	1994	14.12
1965	11.62	1980	35.70	1995	15.54
1966	10.67	1981	32.34	1996	15.35
1967	9.92	1982	30.06	1997	15.31
1968	9.35	1983	30.20	1998	21.46
1969	10.35	1984	29.16	1999	20.20
1970	10.99	1985	29.67	2000	20.47
1971	10.44	1986	15.39		

Sources: Jomo (1990), Appendix Table 2, p.81; Tin Industry (Research and Development) Board, *Malaysian Tin Bulletin*, various issues 1987-2003.

Notes: 1. Prices are based on Kuala Lumpur Tin Market (KLTM)

2. From 1995 average price was based on turnover. Prior to 1995 average price was based on number of trading days.

3. Prices of 1957-1979 have been converted from RM/pikul (1 pikul = 60.48kg)

Apart from the two declining production years (1958 and 1959) prior to 1971, Perak had enjoyed at least a good 12 years where both price and production were on an upward trend, and thereby theoretically increasing revenue available to the state (see Figure 7.2.1). The period 1972-1980 on the other hand presented a different picture when prices had increased by almost three-and-a-half times while production decreased by almost a

**Table 7.2.2 Perak, Malaysia and World tin production, 1957-2000 (thousand tonnes)**

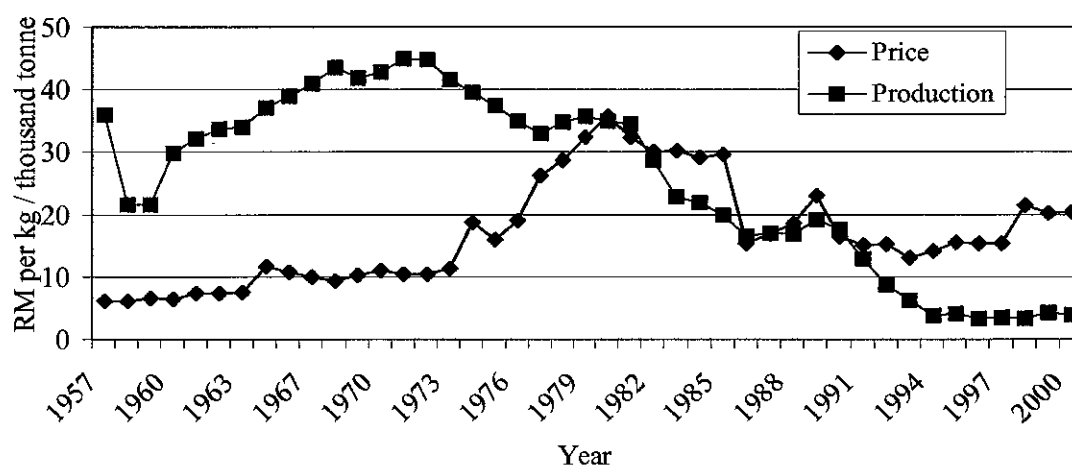
Year	Perak	Malaysia	World	Perak/World (%)	Year	Perak	Malaysia	World	Perak/World (%)
1957	36.1	59.3	163.0	22.1	1979	35.7	63.0	201.0	17.8
1958	21.7	38.5	116.0	18.7	1980	35.0	61.4	199.0	17.6
1959	21.7	37.5	119.0	18.2	1981	34.5	59.9	202.0	17.1
1960	29.9	52.0	134.0	22.3	1982	28.7	52.3	191.0	15.0
1961	32.2	56.0	137.0	23.5	1983	22.8	41.4	172.0	13.3
1962	33.8	58.6	145.0	23.3	1984	22.0	41.3	165.0	13.3
1963	34.1	59.9	143.0	23.8	1985	20.0	36.9	158.0	12.7
1964	n.a	60.0	143.0	n.a	1986	16.6	29.1	184.0	9.0
1965	37.1	63.7	153.0	24.2	1987	17.1	30.4	185.0	9.2
1966	39.0	68.9	163.0	23.9	1988	16.9	28.9	172.0	9.8
1967	40.9	72.1	171.0	23.9	1989	19.1	32.0	171.7	11.1
1968	43.5	75.1	183.0	23.8	1990	17.6	28.5	158.3	11.1
1969	41.8	72.2	177.0	23.6	1991	12.9	20.7	180.8	7.1
1970	42.8	72.6	183.0	23.4	1992	8.8	14.3	174.0	5.1
1971	45.0	74.3	184.0	24.5	1993	6.3	10.4	195.5	3.2
1972	44.8	76.8	197.0	22.7	1994	3.9	6.5	188.5	2.1
1973	41.5	72.3	185.0	22.4	1995	4.2	6.4	201.8	2.1
1974	39.6	68.1	181.0	21.9	1996	3.4	5.2	222.9	1.5
1975	37.4	64.4	175.0	21.4	1997	3.5	5.1	222.3	1.6
1976	35.0	63.4	178.0	19.7	1998	3.3	5.8	229.4	1.4
1977	32.9	58.7	187.0	17.6	1999	4.3	7.3	217.9	2.0
1978	34.8	62.7	197.0	17.7	2000	4.0	6.3	248.8	1.6

Sources: Jomo (1990), Appendix Table 1 & 6, pp.79, 89-90; Malaysia, *Malaysian Mining Industry: Reports and Statistics*, Minerals and Geoscience Department, 2001 & 2003; Malaysia, *Malaysian Minerals Yearbook*, Geological Survey Department, issues 1988-1997; Tin Industry (Research and Development) Board, *Malaysian Tin Bulletin*, various issues 1991-2003; EPU, Malaysia (1995), *Statistical Data for Gross Domestic Product*, Table 13 (unpub.).

quarter; this combination too proved beneficial and should not have created any serious problems for Perak's economy as far as revenue was concerned. The period 1981-2000 however, saw both price and production in steep decline. From the peak of 1980 (at RM35.70 a kilogram) tin prices subsequently faced more turbulent fluctuations and in 2000 the price stood at RM20.47 a kilogram. The most drastic annual price drop was in 1985/86 when the international tin market collapsed, resulting in the loss of almost

50% of its value.<sup>2</sup> If price and production are the only factors taken into consideration, Perak would appear to have faced a decline in revenue in the post-1980 period, when both these elements started their downward trend.

**Figure 7.2.1 Perak: Tin price and production, 1957-2000**



Similar to all commodities traded in the global market where price and production are the main factors affecting a country's revenues, other variables, both from the supply and demand sides also come into play to influence these two components. Mansor (1986) has outlined a list of these other factors, which include competition among producing countries, threats from recycling and tin substitutes, decrease in investment, higher operating costs, competition for mining land, land administrative problems, taxation and fiscal problems.<sup>3</sup> In Malaysia all these factors had, in one way or another, considerable impact on both the tin producers as well as the state. For the tin producers, the increasing

<sup>2</sup>For an account regarding the collapse of the tin market, see Crabtree, Duffy, and Pearce, 'The Great Tin Crash' in Jomo, K. S. (1990). *Undermining Tin: The Decline of Malaysian Pre-eminence*, Transnational Corporations Research Project, University of Sydney, pp. 1-42; and Anderson, R. W. and Gilbert, C. L., 'Commodity agreements and commodity markets: lessons from tin' in *Economic Journal*, 98, 1988, pp.1-15.

<sup>3</sup>Mansor Ibrahim (1986). 'Tin-mining industry in Malaysia: the need for a national reclamation policy', Ph.D Thesis, University of Wisconsin, Madison., pp.34-45; see also <http://www.american.edu/projects/mandala/TED/tin.htm> on reasons for the collapse of the tin mining industry in Malaysia (16/02/2005).

operating costs and government tax structure were the main disincentives for further investment in the industry. In 1973 it was reported that the average total cost for every kilogram of tin output was RM3.96; but the production cost had escalated to RM23.83 per kilogram in 1984, a six-fold increase.<sup>4</sup> After the tin market crashed in 1985 the move by mining operators to reduce costs resulted in a decrease of about 30% in average production cost to RM15.82 a kilogram in 1988<sup>5</sup> and in 1999 stood at RM19.00 a kilogram.<sup>6</sup> Comparing these four-years' figures (1973, 1984, 1988, 1999) against the prevailing tin price, the gross profit from every kilogram of tin produced were diminishing at a fast pace; in 1973 gross profit stood at RM7.38 a kilogram, decreased to RM5.33 in 1984, stood at RM2.67 in 1988, and in 1999 at RM1.20 a kilogram. In 1993 it was reported that tin mine producers would only be making decent profits if tin prices increased beyond the RM17 a kilogram mark,<sup>7</sup> while the price was only RM13.09 at the time. Adding to the already low gross profit margin was the tax structure of the tin industry, which during the 1980s was between 76% to 78%,<sup>8</sup> making it the most heavily taxed industry.<sup>9</sup> At the same time tin producers too had to endure their own operational financial predicament such as servicing high interest rates and a credit squeeze.

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<sup>4</sup>Hamza (1984) in *Ibid.*, p.43.

<sup>5</sup>For developments in tin production in Malaysia, including production costs during 1980-1988, see Abdul Ghani, 'Pengeluaran Timah Malaysia' in *Timah Malaysia*, Vol.16, No.4, 1989, pp.2-15.

<sup>6</sup>Metal Bulletin Monthly, 'Tin resilient to Southeast Asian troubles' in *Metal Bulletin Monthly*, No.344, August, 1999, p.31.

<sup>7</sup>Tin Industry Board (1993), Vol.4, No.12, December, p.3.

<sup>8</sup>Mansor (1986), p.44; Abdul Ghani (1989), p.10.

<sup>9</sup>The tin industry was reported to have been levied eight different types of direct and indirect taxes by the Federal Government: export duty, export surcharge, income tax, tin profit tax, development tax, sales tax, import surcharge, and royalty payments [Mansor (1986), p.44]; see also Thoburn, J. T. (1981). *Multinationals, Mining and Development*, Farnborough: Gower Publishing Company Ltd., Chapter 6 on the effects of tax structure discouraging new investments in the Southeast Asian tin mining sector]



As for Perak and other tin-producing states, the scenario was different as far as revenue from tin is concerned. Although revenues for the states came in the form of taxes collected from the tin industry - and obviously the higher the price of tin the higher the level of taxes that could be collected - the taxes were not wholly returned to the state; only 10% from the proceeds in the form of tax-sharing grants were given to the state while 90% were withheld by the Federal Government as national revenue.<sup>10</sup> At the same time the depleting tin reserve in the state further dampened Perak's hope of relying on this sector.<sup>11</sup> The decision by the Geological Survey Department to discontinue tin exploration activities in Malaysia from 1979<sup>12</sup> gave further indication of tin depletion and the non-viability of new ventures. In this connection, during the 1990s when the tin price was almost stable, ranging between RM13-RM15 a kilogram for seven years before surging to around RM20 towards the end of the decade, Perak tin production experienced a sharp decline from 17,600 tonnes in 1990 to 3,900 tonnes in 1994, and thereafter stabilized within the region of 3,300-4,300 tonnes per annum to 2000.

The overall picture of the tin industry in Perak reveals that price was not the only factor that resulted in the loss of the tin industry and its revenue. Except for 1971 and 1972, tin prices in the 1970s, 1980s and 1990s never went below the 1970 price of RM10.99 a kilogram, in fact, in excess of 40% of the time tin was traded at more than double the price. The main contributors seemed to be the rapid rise of operational costs and the depletion of resources that discouraged investors' interest in Perak's tin mining sector.

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<sup>10</sup>Tax-sharing grants in excess of 10% can only be approved by the Federal Government. [Article 110(3A), Federal Constitution of Malaysia]

<sup>11</sup>Estimates by the U.S Mining Bureau in 1985 suggested that the Malaysian tin reserve would face total depletion by 2004 if production was kept at 30,000 tonnes a year. [Abdul Ghani (1989), p.14]

<sup>12</sup>Ibid., p.15.

This is clearly demonstrated by the drastic closure in the number of operating tin mines in the state from 707 in 1970 to only 23 in 2000.<sup>13</sup>

**Table 7.2.3 Annual average rubber prices 1957-2000 (sen/kg)**

Year	Price	Year	Price	Year	Price
1957	195.66	1972	165.61	1987	248.67
1958	176.83	1973	179.43	1988	309.99
1959	223.90	1974	136.69	1989	261.72
1960	238.28	1975	199.06	1990	233.37
1961	184.17	1976	202.76	1991	226.73
1962	172.40	1977	229.99	1992	218.92
1963	159.22	1978	279.41	1993	213.02
1964	154.37	1979	312.35	1994	294.92
1965	144.14	1980	257.82	1995	395.56
1966	119.23	1981	210.13	1996	350.39
1967	117.11	1982	247.21	1997	278.10
1968	153.93	1983	224.55	1998	280.54
1969	124.38	1984	188.70	1999	239.26
1970	101.61	1985	n.a	2000	261.93
1971	93.50	1986	208.42		

Sources: Department of Statistics, *Rubber Statistics Handbook*, 1986, Table 12.1, p.175; 1987, Table 12.1, p.155; 2001, Table 7.1, p.163; Selvakumaran (1994). *Indian Plantation Labour in Malaysia*, Institute of Social Analysis (INSAN), Table 3.2, p.73.

Note: Prices based on RSS1 issued by the Malaysian Rubber Board in Kuala Lumpur.

In the rubber sector, the trend of price movements during 1957-2000 was generally in reverse order when compared to tin, except for 1971-1984 when the prices of both commodities were moving in a rather similar trajectory. At independence, the average annual price of rubber did not attain a very high level (see Table 7.2.3); at 195.66 sen a kilogram in 1957 it represented one of the lowest prices since 1950 and compared to the peak of 373.68 sen in 1951 the price of rubber had declined by almost half.<sup>14</sup> In 1958 it dropped further to 176.83 sen a kilogram before increasing to 238.28 sen in 1960. For the next 11 years rubber prices saw a continuous decline to 93.50 sen a kilogram in 1971.

<sup>13</sup>See Table 7.4.2 in Section 7.4. Nationwide there were only 40 tin mines actively operating during the year: 23 in Perak, 11 in Selangor, 2 each in Johor and Pahang, and one each in Kedah and Terengganu. [Malaysia (2000). *Minerals Yearbook 2000*, Geological Survey Department, p.36]

<sup>14</sup>For rubber prices during the pre-1957 period, see Table 5.3.3 in Section 5.3.

Comparatively, this price was the lowest for rubber since the two previous decades<sup>15</sup> and also an all-time low for the whole of the post-independence period until 2000. For the next three decades from 1971 rubber prices continued their chaotic fluctuations, reaching new peaks of above 300 sen a kilogram on three occasions in 1979, 1988 and 1995. During this period the lowest price recorded was in 1984 at 188.70 sen a kilogram. The price of 395.56 sen attained in 1995 was not only the highest price recorded in the 1957-2000 period but also the highest ever recorded since complete rubber price data were made available in 1918.

**Table 7.2.4 Perak: Rubber production 1957-2000 (tonnes)**

Year	Production	Year	Production	Year	Production
1957	54,000	1972	173,642	1987	220,096
1958	57,000	1973	208,498	1988	225,403
1959	60,000	1974	215,272	1989	185,704
1960	59,000	1975	199,426	1990	163,070
1961	62,000	1976	226,736	1991	169,031
1962	62,000	1977	225,014	1992	132,468
1963	125,666	1978	219,523	1993	113,446
1964	129,884	1979	216,656	1994	139,446
1965	128,403	1980	206,253	1995	131,926
1966	137,946	1981	199,165	1996	122,513
1967	138,648	1982	221,359	1997	105,927
1968	157,637	1983	228,009	1998	97,847
1969	172,526	1984	216,255	1999	73,980
1970	175,018	1985	192,391	2000	59,812
1971	178,522	1986	210,388		

Sources: Department of Statistics Malaysia, *Rubber Statistics Handbook*, various years 1969-2001; Department of Statistics Malaysia (1989). *State/District Data Bank 1987/88*, p.211; Department of Statistics Malaysia (1990). *State/District Data Bank 1989*, p.201; Thomas & Fong Chu Chai (1968). *Rubber Industry Statistics*, Rubber Research Institute of Malaya.

Notes: Hectarage figures from 1958-1973 have been converted from acres in the original source.  
(1 hectare = 2.471 acres)

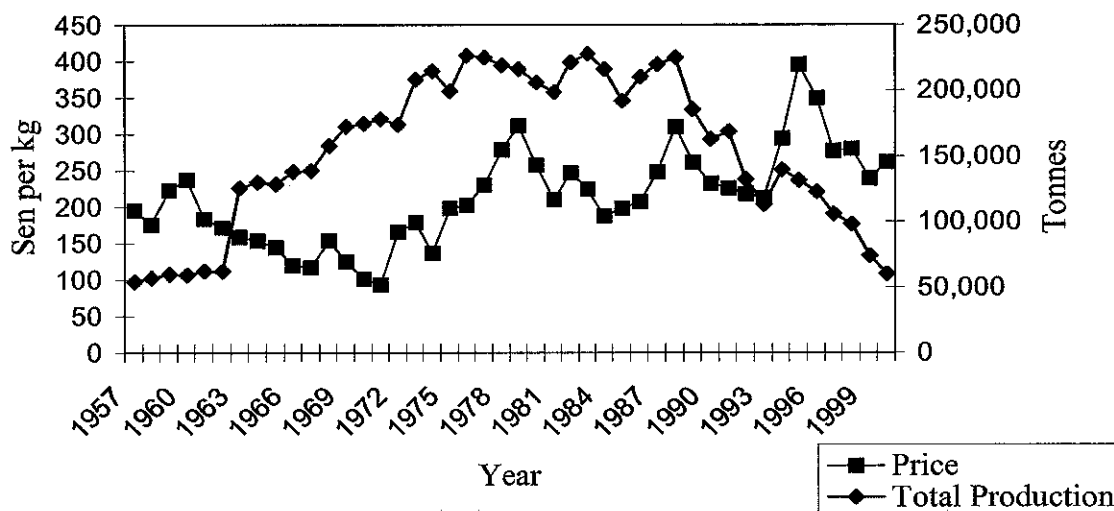
Figures for 1957-1962 have been rounded to the nearest 1,000 tonnes by the original source and only cover estate production.

While the rubber sector has seen extreme fluctuations of prices with a peak of 395.56 sen and the lowest of 93.50 sen during the 1957-2000, production did not follow these

<sup>15</sup>The lowest price prior to 1971 was in 1949 when the annual average price of rubber was 84.22 sen a kilogram.

movements closely. Rubber production in Perak during 1963-1971 clearly shows contrasting trends (see Table 7.2.4 and Figure 7.2.2). While there was a continuous decline in prices that eventually hit an all-time low in 1971, production, on the other hand

**Figure 7.2.2 Perak: Rubber production and price 1957-2000**



showed a 42% increase.<sup>16</sup> During 1971-1979, when the rubber price showed a staggering 234% appreciation, production only increased by about 21%, and 1980-1993 showed a more parallel movement of rubber prices in relation to production. The years 1993-1995 again showed a substantial difference – an 86% price increase accompanied by only 16% increase in production; and finally during the years 1995-2000 when the price dropped by 34% production declined by about 55%.

The situation presented above in relation to rubber prices and production in Perak reveals an important issue for the state agricultural sector, particularly with regard to the declining contribution from the rubber sector to the state economy. While price is an

<sup>16</sup>Comparison for the years 1957-1962 cannot be made as the production data available were only for estates. Smallholders' production figures were only made available from 1963.

important factor in any production processes in which profit is sought, it does not, however, translate well without taking into account output capacity. In general, although the price of rubber was reasonably high, in the region of 200 sen or above in the post-1975 period, and twice reaching beyond the 350 sen mark, production hovered between 190,000 and 225,000 tonnes a year until 1988. There was a continuous steep decline to about 60,000 tonnes in 2000, a figure that matched up to the annual estate production in the late 1960s. While increased production costs, which led to diminishing returns, was one of the factors that saw the decline in interest in rubber production in Perak, the attraction to switch to oil palm cultivation seems to be the major reason since it offered a better income. This can be clearly demonstrated by the substantial increase in the oil palm cultivated area in the state, including the switch from rubber, with new plantings from 32,838 hectares in 1970<sup>17</sup> to 319,086 hectares in 1999,<sup>18</sup> almost a ten-fold increase. Although oil palm cultivation requires more crop attention and the market prices were lower as compared to rubber,<sup>19</sup> the much higher yield per hectare of oil palm provided the incentive to venture into this crop on a massive scale. As an example, using 1997 as a base year, 193,994 hectares of land was attributed to rubber cultivation in Perak producing 290,860 tonnes, which is equivalent to an average of 1.5 tonnes of production per hectare. In the case of oil palm 6,563,116 tonnes were produced from 262,525 hectares of cultivation, which is equivalent to 25 tonnes of production per hectare cultivated.<sup>20</sup> While palm oil prices were about 73% lower than rubber during the year, the

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<sup>17</sup>Perak (1976), p.4.

<sup>18</sup>See Table 7.5.1 in Section 7.5.

<sup>19</sup>In the year 2000 the annual average rubber price was 261.93 sen per kilogram and 70.65 sen for palm oil. [Based on palm kernel (ex-mill) prices. For annual average prices of oil palm products, see Malaysian Palm Oil Board (MPOB) at URL [http://161.142.157.2/home2/home/table5\\_1\\_2000.htm](http://161.142.157.2/home2/home/table5_1_2000.htm) (11/03/2005)]

<sup>20</sup>Calculated from EPU, Perak (1999a). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan 1998*, Table 6.1, p.45.

yield of almost 17 times more per hectare encouraged the crop switch and new plantings.<sup>21</sup>

Although tin and rubber each has its own set of problems, most of these problems were shared, particularly with regard to the rising operational costs and the diminishing profits. Added to these were the depletion of resources, in the case of tin, and the competing attraction of oil palm, in the case of rubber. However, for both commodities it was the prolonged depressed prices against operational costs that had halted further investment in these industries. Producers therefore were diverted to other more productive and viable economic activities. For the state, the commodities that had helped bring Perak to the forefront of economic expansion had lost their importance. In the tin industry the early 1970s marked the beginning of the decline, while for rubber it was towards the end of the 1980s. One of the anticipated consequences expressed by the public sector in the late 1950s and early 1960s was that the state would lose its revenues from these two commodities. This finally became a reality. The consolation for the state was probably that the decline in revenue-generation from these two commodities since independence was relatively gentle, in that diversification to other activities was able to take place. In place of rubber, oil palm proved to be a success and the demise of tin was replaced by diversification into manufacturing industries from the 1970s.

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<sup>21</sup>In 1997 the annual average price of oil palm kernel (ex-mill) was 75.65 sen a kilogram. This example is for illustration only. Oil palm is also subject to serious price fluctuations and, therefore, comparative figures against rubber will change continuously.

### 7.3 The impact of international commodity agreements on the economy of Perak

The impact of prices of both tin and rubber has been examined in the previous section. The discussion of the impact, however, focused more on the influence of price on the productive capacity of the state and the reasons why both industries had ceased to be the primary revenue-generating vehicles for Perak. However, for commodities traded in world markets, rubber and tin are also constrained by global supply and demand and other initiatives undertaken by each commodity fraternity; among them the most popularly known are the International Commodity Agreements (ICAs)<sup>22</sup>. This section will examine the impact of the ICAs on the economy of Perak.

Although there are several ICAs covering various commodities<sup>23</sup>, only those pertaining to tin under the International Tin Agreement (ITA) and to rubber under the International Natural Rubber Agreement (INRA) will be examined here. While both ICAs had slightly different approaches, the main intention was to achieve price stabilization at remunerative levels for both commodities to benefit consumers and producers. The ITA was already in place when Malaysia achieved its political independence in 1957<sup>24</sup> while the INRA commenced its operations in 1980.

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<sup>22</sup>Numerous publications are available on ICAs. For those relevant to the tin and rubber industries, see Anderson, R. W. and Gilbert, C. L. (1988). 'Commodity agreements and commodity markets: lessons from tin' in *Economic Journal*, 98, pp.1-15; Corea, C. (1992). *Taming Commodity Markets*, Manchester: Manchester University Press; Gilbert, C. L., 'Post-war tin agreements: an assessment' in *Resource Policy*, 3, 1977, pp.108-117; Gilbert, C. L., 'International commodity agreements: design and performance' in *World Development*, 15, 1987, pp.591-616; Miranda, M. J. and Helmberger, P. G., 'The effects of commodity price stabilization programs' in *American Economic Review*, 8, 1988, pp.46-58.

<sup>23</sup>Only five ICAs are known to exist. Apart from the two mentioned above, the others are the International Sugar Agreement, the International Cocoa Agreement, and the International Coffee Agreement. [Gilbert, C. L. (1995). *International Commodity Control: Retrospect and Prospect*, Policy Research Working Paper 1545, The World Bank, pp.1 & 46]

<sup>24</sup>The first ITA in the post-war period took effect in 1956. Prior to independence there were already three ITAs, which started in 1931 but ended at the outbreak of the Second World War.

The ITA operates on the basis of buffer stocks and export quotas to stabilize price: the former principally attempts to reduce price fluctuations and the latter raises prices. While it has to be acknowledged that the ITA was able to assist in controlling global tin prices for about three decades prior to the international tin market collapse in 1985, the impact on the state was very serious; Perak being the principal tin producer in Malaysia, producing between 53%-69% of national production during 1957-2000,<sup>25</sup> and heavily reliant on this commodity, had seen its revenue from tin gradually reduced. Whether the ITA was the sole cause of this predicament is debatable at least in two ways. Firstly, tin is a non-renewable asset and continuous extraction of the commodity results in the depletion of supply. The non-parallel trends in the tin price and production as shown in Figure 7.2.1 in the previous section clearly indicate that despite uninterrupted price increases during the early 1970s to early 1980s production was on a decreasing trend.

Secondly, which is related to the first, is the tin price itself. Although price stabilization initiatives on tin were taking place on a global scale, the price level was not remunerative enough for Malaysian producers to increase production. The logic of rapidly expanding production to maximize profit did not occur during the last three decades. After 1972 Perak tin production was on a continuous decline.

One of the possible arguments is that export restrictions, which were implemented intermittently<sup>26</sup> to raise prices and dispose of the International Tin Council's<sup>27</sup> (ITC)

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<sup>25</sup>Calculated from Table 7.2.2.

<sup>26</sup>Export restrictions were in operation whenever 70% of the maximum value in the buffer stock was held in tin metal.



surplus stock, had limited the economic expansion of Perak. Such an argument cannot be fully accepted. This line of argument can be countered by examining the state's tin production against the world production figures as presented in Table 7.2.2 in the previous section. It is acknowledged that the decline in Perak's tin production during 1958-1960 was the result of the export control order<sup>28</sup> but the subsequent years did not experience any decline; in fact tin production had been on the increase until 1971. For the next three decades the continuous decline in tin production too could not be related to the export control order.<sup>29</sup> If the intermittent export restrictions were to have affected the state's tin production then the production graph as in Figure 7.2.1 would have shown increases and decreases in production in line with the impact of withdrawals and enforcements of the export restrictions. Whenever export restrictions were withdrawn, the production should have shown significant increases, allowing producers to accumulate extra surpluses, particularly when there was a continuous price increase in the 1970s to mid-1980s. The continuous decline in the production trend does not seem to support the argument that export restrictions had led to a decrease in Perak's tin production. Furthermore, excess production due to export restrictions could have been diverted for the Malaysian downstream tin-based manufacturing industry since tin consumption had increased by more than seven-fold in 1990 from its 1980 level, and in 1999 an increase of almost thirteen-fold.<sup>30</sup> For comparative purposes, Malaysia's domestic consumption had

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<sup>27</sup>The Council was established in 1956 with the principal aim of achieving long-term balance between tin production and consumption and to prevent excessive fluctuation of prices.

<sup>28</sup>Abdul Ghani (1989), p.2.

<sup>29</sup>The 6<sup>th</sup> ITA was the final agreement that expired in 1989. In the subsequent years the Association of Tin Producing Countries (ATPC) took charge of enforcing export restrictions among member countries.

<sup>30</sup>In 1980 Malaysia's domestic tin consumption was 434 tonnes, in 1990 3,143 tonnes, and in 1999 5,639 tonnes. [Tin Industry Board (1990), issues February 1990, January 1994, and November 2001 respectively]

represented about 1% of Perak's tin production in 1980, and increased to about 18% in 1990. However, in 1999 the state's tin production could not even fulfil domestic needs.

From examining the trend it can be deduced that, at least in the case of Perak, the buffer stock operations and export controls had little bearing on the decline in tin production. Heavily debated issues, such as non-compliance and allocation of export quotas, had gradually become irrelevant.<sup>31</sup> The severe reduction in tin production was solely a result of depleting resources. As for the ITA, the failure of the ITC to stabilize the prices at a higher level further aggravated the tin revenue for Perak. Known to be a relatively high cost producer, the tin price levels did not benefit the state.<sup>32</sup> The attempt by Malaysia in the early 1980s to corner the world tin market through the London Metal Exchange epitomized the initiative to raise tin prices.<sup>33</sup> Whether the tin price could have been higher without the existence of the ITA, i.e. by allowing the free market to determine tin prices, remains highly speculative. If prices reached a very remunerative level for producers, the obvious result for the state would have been maximum expansion of tin production that would, in turn, have contributed to its accelerated depletion. In the short-run, the state could have experienced a substantial increase in revenue but in the longer term the accelerated depletion of tin could also have caused a more severe economic breakdown. At least what took place in Perak was the gradual decline in tin revenue,

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<sup>31</sup>On the national level this issue remains important for a longer period, as cumulative production of the country remained a forceful influence in the international tin arena.

<sup>32</sup>Except for Bolivia, Malaysia has been a high cost producer when compared to Indonesia, Thailand, Brazil, and China. [Crabtree et.al. (1990). 'The Great Tin Crash' in Jomo (1990), pp.15-6; also Abdul Ghani (1989), p.10-11]

<sup>33</sup>For an account of Malaysia's failed attempt and its loss of RM660 million, see Jomo (1990). 'Malaysia's Tin Market Corner' in Ibid., pp.71-7.

which encouraged the state to diversify into other economic activities to cushion the depleting revenues from the tin mining sector.

In October 1985, when the international tin market collapsed due to lack of finance for buffer-stock operations and the tin price dropped by half, Perak tin-producers suffered a huge loss. The impact faced by the state was, however, not so acute as tin production had already declined by more than 60% compared to its height in 1971. During the collapse, the prevailing 6<sup>th</sup> ITA was still in operation until 1989 for which period no significant improvement was seen in term of prices except during the final year when it breached the RM20 a kilogram mark before declining again in subsequent years. For Perak, the dependence on tin as the main revenue had long gone, even before the tin market collapsed; the final decade of the twentieth century only saw Perak producing an average of less than 3% of world production. After more than a century, Perak, along with Malaysia, had ceased to be the world's largest tin producer and in 2000 ranked as the seventh largest producer of mined tin.<sup>34</sup>

In the rubber sector, the impact of international agreements on the economy of Perak took a slightly different turn. The global rubber producers and consumers introduced the last ICA in 1980; the INRA<sup>35</sup> operated entirely on the basis of buffer stock intervention to stabilize prices.<sup>36</sup> Theoretically, whenever rubber prices fall or go beyond a certain pre-

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<sup>34</sup>Wu, J. C. (2001). 'The Mineral Industry of Malaysia' in *U.S. Geological Survey Minerals Yearbook 2000*, p.16.1.

<sup>35</sup>Sanctioned under the International Natural Rubber Organization (INRO).

<sup>36</sup>For a comparative view of the various designs and operations of ICAs, see South Centre Analytical Note (2004). *Commodity Market Stabilisation and Commodity Risk Management: Could the Demise of the Former Justify the Latter?*, November, pp.2-22.

specified price range, the INRA stock intervention will be activated. The intervention is done either by purchasing the commodity when price is below the range or selling when it goes above the range. While the objective was to maintain rubber prices to allow reasonable economic surplus to be gained by rubber producers in the producing countries, the impact of the international initiatives seems to have produced a mixed result for Perak.

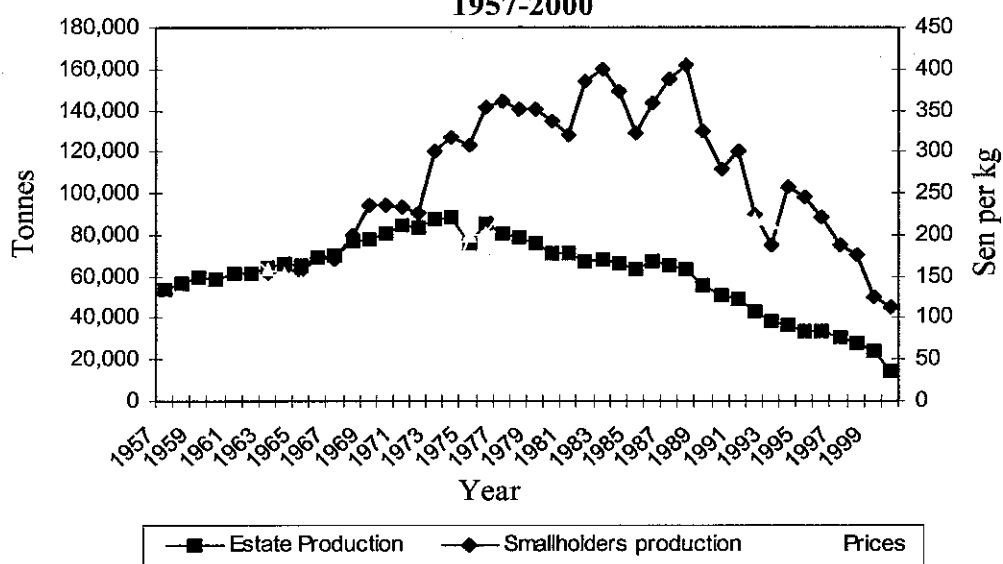
Learning from the ITA's experience, the INRA had made its technical operations more clearly defined.<sup>37</sup> The exclusion of export quotas was important to Perak as in the post-independence period, unlike tin, the main rubber producers were smallholders. As long as price was attractive the production of rubber continued to expand. With only the buffer stock intervention in operation, there was theoretically no limit to production as excess supply could be absorbed by the buffer stock.<sup>38</sup> This is evident from Figure 7.3.1 and Table 7.3.1 below. From 1963, when state data for smallholders began to be made available, one of the most salient features in the state rubber industry was that the total rubber production for both estates and smallholders was almost the same. The production from each sector was in the region of 60,000 tonnes a year. This trend of roughly equal contribution towards the state's total production continued until about 1968. Thereafter the smallholders took the lead as the main rubber producers in Perak. Rubber prices under the influence of INRA, which started in 1980, do seem to have benefited the

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<sup>37</sup>Ibid.

<sup>38</sup>During the first three INRAs 700,000 tonnes had been purchased under the buffer stock arrangements. [Budiman, A. F. S., 'Recent Developments in Natural Rubber Prices', Paper presented in FAO's Consultation on Agricultural Commodity Price Problems, Rome, March 25-26, 2002, p.8]

**Figure 7.3.1 Perak: Estates, smallholders' production and price  
1957-2000**



producers, especially the smallholders. The low cost of production created a natural advantage for the smallholders. This is particularly so when smallholders' production during the decade before INRA is compared to that of post-INRA. From 1970 to the introduction of INRA, rubber smallholders' production in Perak was already growing in tandem with rubber prices i.e. increases in production when there were increases in price and vice-versa. This same production trend, in general, continued in the post-INRA period, indicating that the response from smallholders was that production would increase when the rubber price increases. An additional benefit, however, was present in the post-INRA period in terms of price. A ten-year rubber price average in the 1970s was 190.04 sen a kilogram. The average ten-year price in the 1980s and 1990s, two decades under INRA, had increased to 239.68 sen and 273.08 sen a kilogram respectively.<sup>39</sup> This indicates that smallholders had taken advantage of price increases to improve income.

<sup>39</sup>Calculated from Table 7.2.3 in previous section.

**Table 7.3.1 Perak: Rubber production of estates and smallholdings, 1957-2000  
(tonnes)**

Year	Estates	Smallholdings	Total	Year	Estates	Smallholdings	Total
1957	54,000	n.a	54,000	1979	76,000	140,656	216,656
1958	57,000	n.a	57,000	1980	71,630	134,623	206,253
1959	60,000	n.a	60,000	1981	70,802	128,363	199,165
1960	59,000	n.a	59,000	1982	67,746	153,613	221,359
1961	62,000	n.a	62,000	1983	67,941	160,068	228,009
1962	62,000	n.a	62,000	1984	66,584	149,671	216,255
1963	64,179	61,487	125,666	1985	63,306	129,085	192,391
1964	66,082	63,802	129,884	1986	67,301	143,087	210,388
1965	65,854	62,549	128,403	1987	65,577	154,519	220,096
1966	68,851	69,095	137,946	1988	63,579	161,824	225,403
1967	70,585	68,063	138,648	1989	56,219	129,485	185,704
1968	77,312	80,325	157,637	1990	51,088	111,982	163,070
1969	78,011	94,515	172,526	1991	48,613	120,418	169,031
1970	80,681	94,337	175,018	1992	42,848	89,620	132,468
1971	84,744	93,778	178,522	1993	38,300	75,146	113,446
1972	83,621	90,021	173,642	1994	36,840	102,606	139,446
1973	87,751	120,747	208,498	1995	33,846	98,080	131,926
1974	88,375	126,897	215,272	1996	33,575	88,938	122,513
1975	76,270	123,156	199,426	1997	30,725	75,202	105,927
1976	85,711	141,025	226,736	1998	27,959	69,888	97,847
1977	80,600	144,414	225,014	1999	24,153	49,827	73,980
1978	79,141	140,382	219,523	2000	14,700	45,112	59,812

Sources: Department of Statistics Malaysia, *Rubber Statistics Handbook*, various years 1969-2001; Department of Statistics Malaysia (1989), *State/District Data Bank 1987/88*, p.211; Department of Statistics Malaysia (1990), *State/District Data Bank 1989*, p.201; Thomas & Fong Chu Chai (1968), *Rubber Industry Statistics*, Rubber Research Institute of Malaya.

Notes: Hectarage figures from 1958-1973 have been converted from acres in the original source (1 hectare = 2.471 acres).

Production figures for 1957-1962 have been rounded to the nearest 1,000 tonnes by the original source and only cover estate production.

Another trend also appears in the process. Although in the post-INRA period, prices had been higher than before and the smallholders seemed, in general, to be moving in parallel with price fluctuations, the decrease in production was accelerating faster when there was a price decrease than when price was on a rising trend. The expansion of output during periods of low prices to maintain income levels did not seem to take place. This was particularly so, beginning in 1988, and indicates that, although rubber production remained an important income-earner for the smallholders, there was a continuous move by a growing section of the smallholders to divert to other economic activities. It was

mostly diversification to oil palm cultivation for the reasons already mentioned in the previous section i.e. much higher yields and better income despite lower prices. This is evident in the increase of 228,719 hectares in oil palm cultivation in the state from 1980, the year INRA was introduced, to 1999, witnessing more than a three-fold increase in two decades.<sup>40</sup> Although the figures represent the total state hectarage covering both the smallholders as well as estates, it is estimated that the former cultivated about a third of the hectarage<sup>41</sup>.

In the estate sector, the development of rubber in Perak in the post-INRA period demonstrates an important difference. When smallholders were responding quite well to the rubber price fluctuations, the estate sector appeared to have lost interest in the commodity. It is difficult to determine whether the introduction of the INRA was the sole reason for this or that INRA had further augmented the already declining production trend in the preceding six years of 1974-1980. Rubber production had declined from its height of 88,375 tonnes in 1974 to 71,630 tonnes in 1980. The drop was an annual average decline of about 3% in production and also a sharp drop in cultivated area from 73,064 to 57,327 hectares, a loss of about 2,600 hectares a year (see Table 7.3.2). During the post-INRA period (1980) Perak's rubber production had declined to 14,700 tonnes in 2000, resulting in an annual average drop of almost 4% when compared to the 1980

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<sup>40</sup>See Table 7.5.1 in Section 7.5.

<sup>41</sup>For example, in 1987 there were 198,191 hectares of land cultivated with oil palm in Perak with the following breakdown: smallholders 24,006 ha., FELDA 19,040 ha., FELCRA 25,901 ha., RISDA 3,088 ha., SADC 4,850 ha., and private estates 121,306 ha. [Perak (1990). *Pelan Tindakan Sektor Pertanian 1989-2000*, p.2 (unpub.)] Except for SADC, which are run identical to estates, for the other land schemes they were subdivided into small parcels and cultivated by settlers a.k.a. smallholders but under the umbrella of the respective agencies. Therefore, the total for the smallholders' category was 72,035 hectares representing 36.3% of total oil palm hectarage in Perak; under the same assumption smallholders represented 34% in 1991 and 39% in 2001 in cultivated areas. [calculated from Table 7.5.4 in Section 7.5]

figure; and a smaller decline of about 2,200 hectares a year bringing it to 12,802 hectares in the same year. The use of modern technology and better cultivation techniques did not appear to be of much assistance in mitigating the decline in production and hectareage reduction. When both the production and hectareage were declining continuously at a rapid pace, the most obvious conclusion is that the price established by the INRA was not remunerative enough, especially with rising operational costs, to further prolong the estates' involvement in rubber production. It seems that the INRA had no significant positive impact on the estate sector in Perak. This is further demonstrated in Table 7.3.2 that the continuous decline in rubber hectareage had already been taking place since independence.<sup>42</sup> Similar to the smallholder sector, the move to the more profitable oil palm cultivation was the reason for the decline. In fact, it was the estates that had initiated crop diversification from rubber to oil palm before being followed by the rubber smallholders. As more organized entities, the estates were more sensitive to and aware of the global economic environment that required them to change.

The smallholders and the estate sectors in Perak's rubber industry had responded differently to the activities of INRA. But on aggregate, the state rubber industry was not able to sustain its high production capacity, at levels prior to the agreement, for very long in the post-INRA period (see Figure 7.2.2). This was because the unattractive rubber prices failed to encourage production expansion in the state. The prolonged low prices, and also INRO's rejection of increased rubber prices, saw the demise of INRA in 1999.<sup>43</sup>

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<sup>42</sup>In Malaysia hectareage under rubber had been on the decline since the early 1980s. [Tunku Mahmud (2000). 'Crop Diversification in Malaysia', Regional Expert Consultation on Crop Diversification Workshop, FAO/Rap Publication No. 2000/14, p.1]

<sup>43</sup>The 4<sup>th</sup> INRA collapsed after the withdrawal of three major rubber producers - Malaysia, Thailand, and Sri Lanka [South Centre Analytical Note (2004), p.20]



**Table 7.3.2 Perak: Rubber estate hectarage, 1957-2000**

Year	Hectares	Year	Hectares	Year	Hectares
1957	n.a	1972	80,057	1987	46,487
1958	112,465	1973	76,822	1988	45,244
1959	109,308	1974	73,064	1989	43,427
1960	105,677	1975	69,918	1990	41,847
1961	105,265	1976	67,018	1991	40,220
1962	104,718	1977	65,174	1992	37,517
1963	104,006	1978	63,256	1993	35,478
1964	102,191	1979	60,165	1994	34,342
1965	99,478	1980	57,327	1995	31,693
1966	94,744	1981	54,974	1996	28,885
1967	89,992	1982	53,604	1997	25,990
1968	87,993	1983	56,690	1998	24,510
1969	85,320	1984	54,443	1999	18,704
1970	84,354	1985	50,853	2000	12,802
1971	82,831	1986	47,946		

Sources: Department of Statistics Malaysia, *Rubber Statistics Handbook*, various years 1969-2001; Department of Statistics Malaysia (1989). *State/District Data Bank 1987/88*, p.211; Department of Statistics Malaysia (1990). *State/District Data Bank 1989*, p.201; Thomas & Fong Chu Chai (1968). *Rubber Industry Statistics*, Rubber Research Institute of Malaya.

Notes: Hectarage figures from 1958-1973 have been converted from acres in the original source (1 hectare = 2.471 acres). These figures do not include those under RISDA, FELDA, FELCRA, and other state land development schemes.

In Perak, the existence of tin and rubber cultivation had provided the state with the impetus and foundation for greater economic growth. In the international arena, the establishment of the ICAs to balance both global production and consumption, and thereby theoretically benefit the producing and consuming countries, did not help sustain the economic expansion of the state as a producer. It was not possible to continue to depend on these commodities as prices were low and resources were depleting. On a more positive note, the huge reduction in rubber production and revenue allowed oil palm cultivation to be carried out on a more rapid scale. Although the ICAs did not help to any great extent in economic revenue generation in Perak, they did force the pace and the need for economic diversification in the state.

#### **7.4 The changing pattern of labour and land utilisation after the decline of tin**

The two previous sections have focused on the impact of price fluctuations of the two primary commodities on the producers and the state, both as the result of market supply and demand and the influence of the ICAs. The consequences are far-reaching whenever commodities production moves in parallel, particularly over a long period. When commodity production was on the increase, along with remunerative prices, its contribution to the local economy will be positive - creating employment, improving income levels and standards of living, and triggering a number of related downstream economic activities. Improvements to revenue theoretically will allow better provision for state development programmes. In the case of tin in Perak the circumstances, beginning from the early 1970s, had been in the reverse. This section will examine the impact on labour patterns and also land utilisation as the result of the continuous decline in tin production in Perak.

In 1971, Perak recorded the highest post-independence tin production of 45,000 tonnes.<sup>44</sup> It was also the year that the post-independence tin mining industry in the state had employed a record high of 28,844 workers (see Table 7.4.1 below)<sup>45</sup>. Prior to 1971, the general trend in tin production, except for 1957, has been on the increase and therefore saw a corresponding rise in the labour force. Although the situation was unlike the tin

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<sup>44</sup>See Table 7.2.2 in Section 7.2.

<sup>45</sup>This, however, is not the highest record for the whole tin industry history in Perak as it was reported that Larut alone had about 40,000 Chinese immigrants working in tin mines during the early colonial period, see Section 3.5.

boom years of the colonial period, particularly in the first 15 years of the 1900s when production was higher<sup>46</sup> than that of 1971, the increase in tin mining labour was evident.

**Table 7.4.1 Perak: Labour in tin mining sector, 1957-2000**

Year	Labour Employed	Year	Labour Employed	Year	Labour Employed
1957	21,430	1972	28,771	1987	6,681
1958	13,510	1973	n.a	1988	7,010
1959	14,033	1974	27,836	1989	7,948
1960	18,048	1975	24,805	1990	7,051
1961	18,725	1976	23,082	1991	4,949
1962	18,591	1977	23,478	1992	3,106
1963	19,107	1978	25,007	1993	n.a
1964	22,018	1979	24,538	1994	n.a
1965	26,235	1980	23,821	1995	2,400
1966	27,943	1981	20,937	1996	1,133
1967	28,673	1982	16,018	1997	1,018
1968	28,418	1983	15,114	1998	1,256
1969	27,841	1984	13,917	1999	1,171
1970	28,719	1985	9,632	2000	999
1971	28,844	1986	6,508		

Sources: Malaysia (2001). *Malaysian Mining Industry*, Minerals and Geoscience Department, Table 15, p.35; Francis Loh (1988). *Beyond the Tin Mines*, Table 5.4, p.189; Perak (1976), *RMK3*, Table III-I, p.20; Perak (1981), *RMK4*, Table 2-11, p.26; EPU Perak (1986a). *Statistik Negeri Perak 1980-1985*, p.111; EPU Perak (1991c). *Perangkaan Asas Negeri Perak*, p.28; EPU Perak (1993). *Bank Data Negeri Perak*, p.102; EPU Perak (1999a). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan 1998*, p.56.

Note: The 1989 and 1995 figures comprised those categorized under 'mining and quarry'. No distinctions were made between each category and the various types of minerals.

With a labour strength of 13,510 working in the mines in 1958 it grew continuously to 1971; the workforce more than doubled. Accompanied by a gradual increase in tin prices that hovered between RM6 and RM11 a kilogram, the tin industry seemed to have been able to absorb the displaced labour as the result of the sudden decrease in labour requirements in 1957-58. On top of that, the industry also provided employment opportunities for new labour. The increase in employment opportunities in this sector during the period was also made available by the significant increase in the use of the

<sup>46</sup>See Table 5.3.2 in Section 5.3. Mechanized tin extraction was in the early stage of introduction and manual labour was still heavily depended upon.

more labour-intensive gravel-pump tin mining operations, encouraged by the rising tin prices.<sup>47</sup>

This positive labour pattern started to halt and reversed its direction after 1971. In line with the decline in tin production beginning in the early 1970s<sup>48</sup> the labour force in this sector followed suit. The continuous decline in labour was rapid and within a twenty-year period the tin industry had lost almost 97% of its workforce leaving only 999 people in the industry in 2000; and compared to 707 tin mines operating in 1970 only 23 left in 2000 (see Table 7.4.2).<sup>49</sup> Major tin mine locations surrounding the districts of Kinta, Larut Matang, and Batang Padang that had been the centres of economic activities in Perak inevitably had to search for new alternatives to absorb the excess labour. While Perak had seen a net out-migration of labour since the 1970s with the majority of the migrants heading for the adjacent states of Selangor and Kuala Lumpur<sup>50</sup>, the circumstances surrounding the three mining districts was slightly different. Rather than expecting a net out-migration due to the decline in tin mining activities, the three districts received a net in-migration of population.<sup>51</sup> Intra-state migration alone during 1970-1980 shows that the district of Kinta received a total net in-migration of 181,000, Batang

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<sup>47</sup>Francis Loh (1988), p.188.

<sup>48</sup>See Figure 7.2.1 in Section 7.2.

<sup>49</sup>Perak's major tin mining companies still operating in 2000 were New Lahat Mines at Lahat, Rahman Hydraulic Tin at Klian Intan, S.E.K. (M) at Kampar, Omsam Telecommunication at Bakap, and Tasek Abadi at Senudong.

<sup>50</sup>Perak's net migration in 1970 was -7.0%, 1980 -15.7%, 1986-1991 -3.8%, and 2000 -0.3%. [ Perak (1991). *Kajian Pembangunan Wilayah dan Pengenalalan Projek Negeri Perak Darul Ridzuan*, Final Report, p.4-5; Department of Statistics Malaysia (1996). *Internal Migration in Malaysia*, No.2, Table 3.2, p.9; Department of Statistic Malaysia (2001). *Migration Survey Report Malaysia 2000*, p.24]

<sup>51</sup>Although the migration figures represent population movements, the inflows inevitably resulted in additional available workforce into these districts.

Padang 21,000 and Larut Matang 9,000.<sup>52</sup> Even after the international tin market had collapsed in late 1985 and labour in the tin mining sector had reduced to about a quarter of the 1980 figure, these districts maintained their capability to attract intra-state migrants. The period of 1986-1991 saw Batang Padang district experience a 1.1% net in-migration, Kinta 1.8%, and Larut Matang 0.5% in relation to the district's population.<sup>53</sup> Inter-state migration from these districts is more difficult to ascertain as statistical data available (except for 1980) only show migration between states without indicating the district of origin. In 1980, the district of Kinta was recorded to have 83,900 in inter-state out-migration, Larut Matang 40,978 and Batang Padang 25,766.<sup>54</sup> While there is no certainty from which sector all these out-migrants originated, it is certain that some were from the tin mining sector.

**Table 7.4.2 Perak: Number of tin mines, 1970-2000**

Year	No.	Year	No.	Year	No.
1970	707	1981	446	1992	36
1971	700	1982	376	1993	21
1972	699	1983	341	1994	22
1973	655	1984	280	1995	24
1974	686	1985	169	1996	18
1975	603	1986	124	1997	19
1976	543	1987	148	1998	23
1977	553	1988	149	1999	26
1978	596	1989	183	2000	23
1979	571	1990	96		
1980	549	1991	55		

Sources: Perak (1981), *RMK4*, Table 2-11, p.26; EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, p.113; EPU, Perak (1993). *Bank Data Negeri Perak*, p.102; Malaysia, *Malaysian Minerals Yearbook*, Geological Survey Department, issues 1988-2000; EPU, Perak (1991c). *Perangkaan Asas Negeri Perak Darul Ridzuan*, p.28.

The pattern of labour in these districts clearly indicates that despite losing its principle economic activity, these districts had coped quite well in redirecting the surplus human

<sup>52</sup>Perak (1991), Figure 4.1.2. During 1970-1980 Perak experienced a net out-migration of 104,400 of its population.

<sup>53</sup>Department of Statistics Malaysia (1996), p.20.

<sup>54</sup>EPU, Perak (1986a), p.33.

resources from the tin mining sector and new labour migrants into new economic activities. At the lower end, a small number of the former tin mining labourers had moved into the agricultural sector. This is particularly prominent in the districts of Batang Padang and Kinta, which saw a huge increase in market-gardening activities (see Table 7.4.3). While this economic activity existed during the colonial period in the Kinta district to support the needs of the growing population,<sup>55</sup> the increase in hectareage in the post-independence period, particularly after the first official survey in 1966 (which shows an increase of 732 hectares to 1,105 hectares in 1985) could only suggest that there is a link between the increase in market-gardening hectareage and the decline in tin mining employment. In 1992, seven years after the collapse of the International Tin Agreement the hectareage had further increased to 1,306 hectares.<sup>56</sup> A huge increase is also seen in Batang Padang where market-gardening activities had increased from 58 hectares in 1966 to 898 hectares in 1985.

**Table 7.4.3 Perak: Market gardening and orchard cultivation hectareage, selected years**

District/Year	Market Gardening			Orchard			
	1966	1974	1985	1966	1974	1985	1996
Batang Padang	58	71	898	12	128	838	2,951
Larut Matang	180	255	234	380	808	1,646	5,517
Kinta	732	952	1,105	297	794	993	1,773

Sources: Wong (1974). *The Present Land Use of Peninsular Malaysia*, Volume I, Ministry of Agriculture, Malaysia, pp.399, 411, 433; EPU Perak (1986a). *Statistik Negeri Perak 1980-1985*, Ipoh, p.47; Perak Agricultural Department (1997). *Laporan Tahunan 1996*, Appendix 8, p.31.

Note: All figures have been rounded to the nearest hectares.

Apart from market-gardening, orchard cultivation had also emerged as an important economic activity. The development in this sector, as shown in Table 7.4.3, indicates

<sup>55</sup>See Francis Loh (1988), pp. 20-3.

<sup>56</sup>Majlis Daerah Kinta Barat & Selatan (1996). *Rancangan Struktur Sebahagian Daerah Kinta: Laporan Pemeriksaan*, November, Table 3.4.1, p. 3.4-1.

that the growth was faster during the post-1985 period in all the three tin mining districts. Although all these districts registered impressive growth in orchard cultivation, the most remarkable was that of Larut Matang where an additional 3,871 hectares was developed between 1985-1996.

While the development of the agricultural sector has helped provide new employment opportunities in these districts, it was not able to absorb all the surplus labour with the decline in tin mining. However, these districts had advantages that could be capitalized on as a result of the prior development of the tin industry; and this is the availability of modern physical infrastructures that could assist diversification into industrialization. Partly as a state initiative, industrialization, which first took place in Ipoh in the 1960s, began to expand. From 1976 to 1980, a total of 93 (52.5%) industrial projects approved in Perak were situated in the district of Kinta, 30 (17.0%) in Larut Matang, and only 7 (4%) in Batang Padang (see table 7.4.4). During the period 1981-1985, the momentum created in the preceding five years was not well sustained, because only Kinta district had shown significant improvement; Kinta had 132 projects approved during the period, a slight improvement on Larut Matang with 35 approved projects, and a deteriorating situation in Batang Padang with only 4 projects during the period.<sup>57</sup> The employment opportunities created by these projects had provided a part-solution for the districts' surplus labour problem. During the period 1980-1985 the industrialization initiatives in these districts managed to provide 9,270 new jobs in Kinta, 3,024 in Larut Matang, and 1,194 in Batang Padang.<sup>58</sup> At the same time, these districts also faced the ups and downs

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<sup>57</sup>For total aggregate number of projects approved in each district during 1976-1986, see Map 7.4.1.

<sup>58</sup>EPU, Perak (1986a), p.100-1.

of demand and supply that affect certain sectors within the industry, which at times involved the laying off of workers such as those that took place in the textile industry in Larut Matang district in the 1980s.<sup>59</sup> Although the industrial development in these districts was not fast enough to provide sufficient employment opportunities for all,

**Table 7.4.4 Perak: Geographic location of industrial projects approved between 1976-1986**

District/Industrial estate	1976-1980		1981-1985	
	Number	%	Number	%
<b>Kinta District</b>	<b>93</b>	<b>52.5</b>	<b>132</b>	<b>61.4</b>
- Tasek Industrial Park	34	19.2	26	12.1
- Jelapang Industrial Park	18	10.2	20	9.3
- Taman Meru Industrial Park	0	0.0	6	2.8
- Silibin Industrial Park	0	0.0	7	3.3
- Pengkalan/Lahat Industrial Park	8	4.5	17	7.9
- Outside industrial estate	33	18.6	56	26.0
<b>Larut Matang District</b>	<b>30</b>	<b>17.0</b>	<b>35</b>	<b>16.3</b>
- Kemunting Industrial Park	18	10.2	19	8.8
- Tupai Industrial Park	4	2.3	5	2.3
- Outside industrial estate	8	4.5	11	5.1
<b>Kuala Kangsar District</b>	<b>13</b>	<b>7.3</b>	<b>10</b>	<b>4.6</b>
- Kuala Kangsar Industrial Park	5	2.8	8	3.7
- Outside industrial estate	8	4.5	2	0.9
<b>Krian District</b>	<b>9</b>	<b>5.1</b>	<b>12</b>	<b>5.6</b>
- Parit Buntar Industrial Park	7	4.0	9	4.2
- Outside industrial estate	2	1.1	3	1.4
<b>Manjong District</b>	<b>5</b>	<b>2.8</b>	<b>13</b>	<b>6.0</b>
- Kampong Acheh Industrial Park	0	0.0	4	1.9
- Outside industrial estate	0	0.0	9	4.2
<b>Batang Padang District</b>	<b>7</b>	<b>4.0</b>	<b>4</b>	<b>1.9</b>
<b>Hilir Perak District</b>	<b>18</b>	<b>10.2</b>	<b>8</b>	<b>3.7</b>
<b>Hulu Perak District</b>	<b>2</b>	<b>1.1</b>	<b>1</b>	<b>0.5</b>
<b>Perak Tengah District</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>
Projects located in industrial estates	94	53.1	121	56.3
Projects located outside industrial estates	83	46.9	94	43.7
<b>Total</b>	<b>177</b>	<b>100.0</b>	<b>215</b>	<b>100.0</b>

Source: MIDA in EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, pp.87-8

<sup>59</sup>In 1985 a total of 662 workers were laid off as 6 factories were closed down. [EPU, Perak (1986a), p.107]



significant progress did take place, and by 1991 manufacturing industry in Kinta was employing 49,029 people, Larut Matang 15,910 people, and Batang Padang, at a slower pace, 3,456 people.<sup>60</sup> From 1990, the tin industry in these districts was no longer seen as economically important.

While the initiatives undertaken by the state in diversifying its economic activities were able to provide job opportunities and mitigated an even higher level of out-migration from these districts in the state, the initiatives undertaken in administering the ex-mining areas seem to have taken a back seat. This is evident when no particular emphasis was given as to any specific rehabilitation programmes for the ex-mining areas. In a development policy document of 1986-1990, as part of the State's 5<sup>th</sup> Malaysia Plan, the utilisation of ex-mining land for market-gardening activities was only mentioned in passing.<sup>61</sup> Another minor initiative appeared in the then proposed State's 7<sup>th</sup> Malaysia Plan (1996-2000) where reference was made to the promotion of aquaculture in these areas, particularly in Kinta.<sup>62</sup>

Table 7.4.5 below depicts the total hectarage that has been alienated for tin extraction activities.<sup>63</sup> The continuous increase in hectarage since 1966 only reiterates superficially

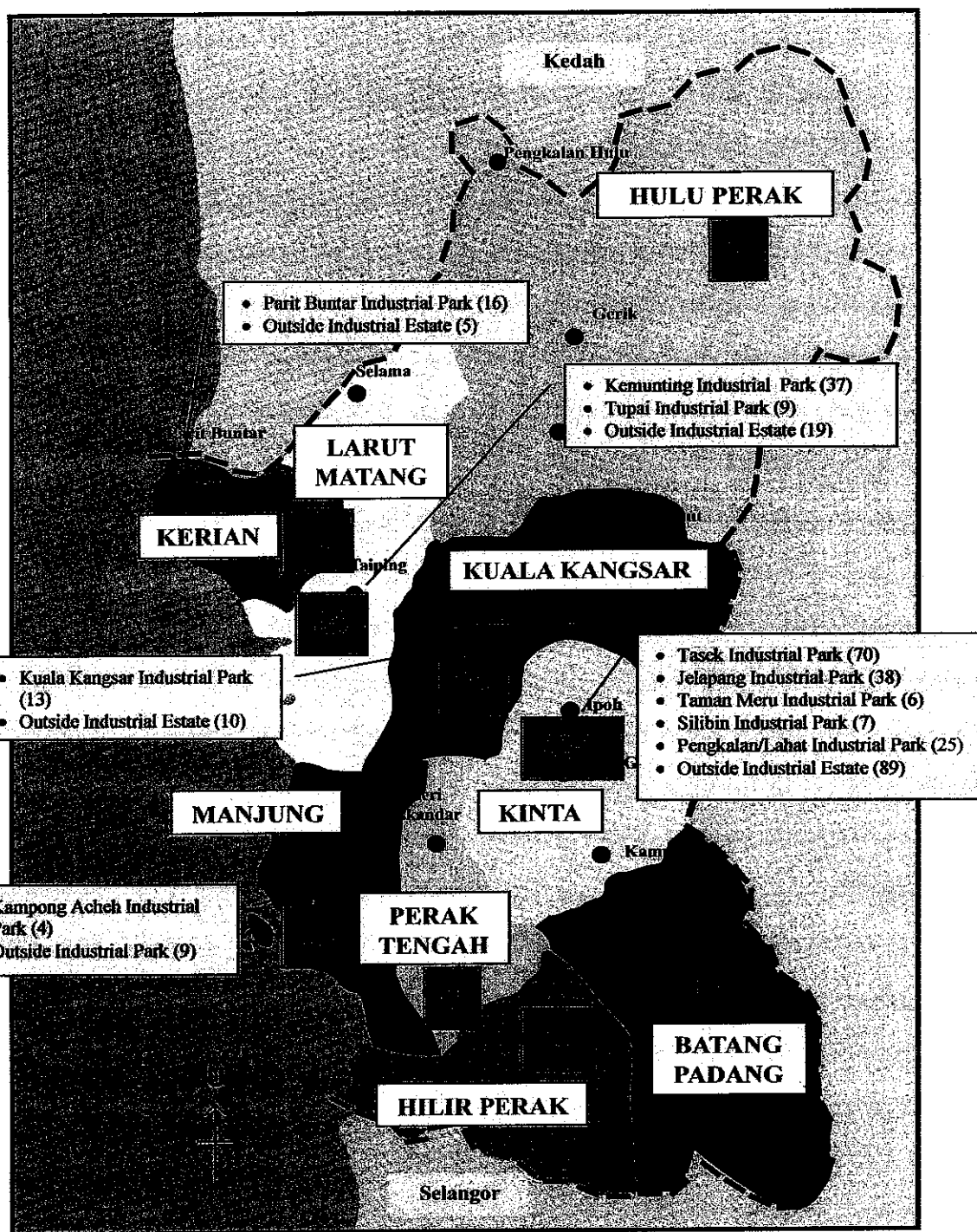
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<sup>60</sup>Department of Statistics Malaysia (1995). *Population Report for Administrative Districts: Occupation and Industry*, pp.360, 372, 390.

<sup>61</sup>EPU, Perak (1985). *Dasar, Matlamat & Strategi Pembangunan Negeri Perak 1986-1990*, Ipoh, Appendix A, p.5.

<sup>62</sup>EPU, Perak (1995a). *Cadangan Rancangan Malaysia KeTujuh (1996-2000)*, Ipoh, p.66.

<sup>63</sup>Statistics for the 1980s are available. However, figures presented were restricted to actual worked hectarage for the year and do not portray total tin mining hectarage in the state.



**Map 7.4.1 Perak: Geographic location of industrial projects approved 1976-1986**

the notion that no action has been taken to rehabilitate ex-mining land.<sup>64</sup> However, although it is not explicitly spelt out in the state planning documents, some initiatives had been taken. It could not, however, be ascertained that they were taken principally as part of rehabilitating ex-mining land or as a result of land shortages for development purposes. While specific statistics relating to state-wide development of ex-mining lands are not available, an estimate in the district of Kinta in 1996 revealed that 3,294 acres had been re-developed for various purposes; 1,010 hectares for planned villages, 449 hectares for agriculture, 966 hectares for industrial areas, 577 hectares for housing schemes, and 291 hectares for recreational areas.<sup>65</sup> Similar re-development programmes have since taken place in other ex-mining districts. Although one of the problems facing rehabilitation of ex-mining areas was the lease-holders' desire to hold on to the land until the expiry of the lease period, despite having worked on the entire area, this obstacle disappeared over time as more and more mining leases came to an end. At the end of 1992, only 12,582 hectares were still under mining lease and this figure was further reduced to 1,694 hectares for expiry at the end of 2000 and beyond.<sup>66</sup>

**Table 7.4.5 Perak: Mining land distribution, selected years**

Year	Hectares ('000)	Year	Hectares ('000)
1966	29.7	1992	68.0
1974	54.3	1997	84.0
1978	65.3	2000	84.0

Sources: I.F.T. Wong (1974). *The Present Land Use of Peninsular Malaysia*, Vol. 1, Ministry of Agriculture, pp.394-5; Perak (1981). *RMK4*, p.26; EPU, Perak (1993). *Bank Data Negeri Perak Darul Ridzuan*, p.102; EPU, Perak (1999). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan 1998*, Table 2.4, p.14; [http://www.perak.gov.my/english/geography/land\\_usage.html](http://www.perak.gov.my/english/geography/land_usage.html) (22/04/2005)

<sup>64</sup>It is apparent that the statistics only take into account the total hectareage alienated for mining without any reduction carried out when land has been re-developed for other purposes.

<sup>65</sup>Majlis Daerah Kinta Barat & Selatan (1996), p. 3.4-9.

<sup>66</sup>EPU, Perak (1993), p.50-2.

The passing of tin in Perak inevitably forced the state to diversify its economic activities. The most notable change was the diffusion of labour from the tin mining sector to other sectors, particularly to agriculture and manufacturing. Although manufacturing development had been reasonably rapid with the passing of tin in the respective districts, its development was not adequate to prevent the out-migration of a significant number of people. At the same time more emphasis and actions could have been taken earlier to utilize the ex-mining areas for re-development programmes which could have generated the much needed jobs and better land utilisation.

#### **7.5 Land utilisation during the decline of rubber**

In the previous section, it had been argued that the changes in labour patterns and land utilisation after the passing of tin had resulted in labour being channelled into other activities. The changes had also led to migration and also some attempts to rehabilitate and divert ex-mining land into other economic uses. The changes in land utilisation due to the decline of tin mining have not been rapid i.e. redevelopment of ex-mining land was not a priority as the state still has ample tracts of land for development. On the other hand, the changes in land utilisation with regard to the rubber sector present a different state of affairs. This section traces and examines the changes in land utilisation during the decline of rubber in Perak.

The changing land use pattern, including rubber cultivation up to 1980, has been presented in Section 6.6 and the relationship between rubber production and price in Perak has also been shown in Section 7.2. While the state rubber production had

remained in the high range of between 190,000-225,000 tonnes in the 1973-1988 period, with most of the years at a price of above 200 sen a kilogram, the direction of change in rubber land utilisation was contradictory. In 1974, when the Ministry of Agriculture carried out a survey on land use throughout Malaysia, Perak had 276,413 hectares planted with rubber.<sup>67</sup> This corresponded well with its high production of 215,272 tonnes during the same year.<sup>68</sup> In 1980, when the production had declined by about 9,000 tonnes, the hectarage had greatly reduced by more than 22,000 hectares. While on the one hand new high-yielding rubber clones and modern techniques have shown improvement in rubber yield and production, on the other it is the beginning of the decline in rubber hectarage in Perak. This declining trend is shown in Table 7.5.1 below when by 1990 the rubber sector had lost a further 42,341 hectares compared to 1980. No significant improvement was seen in the decade of the 1990s, except that in 1995 when some expansion in rubber cultivation was seen to be taking place, it was superseded by the faster rate at which cultivators switched land utilisation into other agricultural or non-agricultural activities. This finally saw the total rubber hectarage in 1999<sup>69</sup> standing at about the same level as in 1990. Comparing the high rubber hectarage of 1974 to the total hectarage of 1999 the rubber industry in the state had declined by 65,264 hectares or by about 24% within a 25-year period.

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<sup>67</sup>See Table 6.6.1 in Section 6.6.

<sup>68</sup>See Table 7.2.4 in Section 7.2.

<sup>69</sup>Statistics for 2000 are available but not used since figures relating to rubber hectarage do not seem logical. A drastic drop in hectarage to 4,542 hectares was reported in 2000; and in 2001 rubber hectarage is reported to be 195,421 hectares. Statistics for padi and orchard cultivation for 2000 are also not available. [<http://agrolink.moa.my/BI/statistics> (05/04/2005); Perak Agricultural Department (2002). *Laporan Tahunan 2001*, Appendix 4, p.26]

**Table 7.5.1 Perak: Selected agricultural land use, 1980-1999, selected years**

Land Use Category	1980 (hectares)	1990 (hectares)	1995 (hectares)	1999 (hectares)
Rubber	254,038	211,697	218,258	211,149
Oil Palm	90,367	248,465	337,525	319,086
Padi	69,537	83,243	73,536	81,022
Coconut	54,963	39,593	36,013	24,193
Cocoa	25,459	30,608	29,161	6,607
Orchards	8,745	21,939	19,276	17,989

Sources: EPU, Perak (1999). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan 1998*, p.15; Ministry of Agriculture, Peninsular Malaysia official website at <http://agrolink.moa.my/BI/statistics> (05/04/2005).

In examining Table 7.5.1 the changes in land utilisation during the decline of rubber is obvious. The trend of switching crop cultivation from rubber to oil palm that began in the 1960s had continued into the 1980s and 1990s. There were also other reasons for the reduction in rubber hectareage in Perak such as for the development of housing and industrial estates, but the decline was insignificant compared to the mass switching to oil palm with its hectareage increasing by more than three-fold within two decades since 1980. As in the 1960s, the estate sector represents the largest sector among rubber cultivators, which had switched to oil palm. In terms of the number of estates the 1990s represent the largest decline in rubber estates in Perak; the rubber industry lost 122 estates within the 1990-2000 period (see Table 7.5.2).<sup>70</sup> Estates that represented 57,327 hectares of the total rubber hectareage in 1980 had declined to only 12,802 hectares in 2000; a decline of 44,525 hectares (see Table 7.5.3). The table too reveals another trend that despite the fact that the overall state rubber hectareage had been on the increase since independence and only began to decline in the mid-1970s, for the estate sector the continuous decline in rubber hectareage was already taking place from the colonial

<sup>70</sup>Decline in the number of rubber estates in Malaysia since the 1960s was also partly due to subdivisions of estate land into smallholdings. [Gunnarson (1979), p.67]

period.<sup>71</sup> It is evident that the estates had long reduced their participation in rubber cultivation and the increase in state rubber hectareage prior to the decline in the mid-1970s was the result of smallholder participation. It seems that the estate sector was quicker in recognizing the need to diversify crop production rather than be solely dependent on rubber, and they were more able to respond.

One of the reasons why the smallholders' rubber hectareage continued to increase was the direct involvement in subsidy assistance and encouragement provided principally by RISDA, a federal agency, as part of the national rural development programme.<sup>72</sup> The government's post-independence national rubber policy had intensified initiatives in the form of replanting and technical assistance, land settlement and new planting, central marketing, and intensified research programmes.<sup>73</sup> In the 1991-2001<sup>74</sup> period, for example, when the estates and other government agencies such as FELDA and SADC had shown a decline in rubber cultivation hectareage, and FELCRA too had shown only some minor increase in hectareage, smallholders under RISDA, however, had shown a very large increase; during this period these smallholders had added a total of 21,532 hectares in rubber cultivation areas in the state.<sup>75</sup> The ability to sustain rubber hectareage in the state was the result of the active role played by RISDA in encouraging rubber cultivation among smallholders.

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<sup>71</sup>The rubber estate sector in Perak was at its height in 1940 when 127,352 hectares were cultivated; see Table 5.2.1 in Section 5.2.

<sup>72</sup>In 1973 almost 50% of the total planted hectareage on smallholdings in Malaysia consisted of replanted land under RISDA schemes. [Gunnarson (1979), p.54]

<sup>73</sup>Ibid.

<sup>74</sup>Statistics for 2001 are used due to unavailability of detailed statistics for 1999 and 2000.

<sup>75</sup>Smallholders' rubber hectareage under RISDA in 1981 and 2001 was 141,303 and 162,835 respectively. [Perak Agriculture Department (1992). *Laporan Tahunan 1991*, Appendix 2, p.38; Perak Agriculture Department (2002), Appendix 4, p.26]

**Table 7.5.2 Perak: Number of rubber estates 1960-2000, selected years**

Year	Estates	Year	Estates	Year	Estates
1960	390	1975	288	1990	206
1965	374	1980	258	1995	n.a
1970	349	1985	231	2000	84

Sources: Department of Statistics Malaysia, *Rubber Statistics Handbook*, various years 1969-2001.

**Table 7.5.3 Perak: Rubber estate hectarage, 1958-2000**

Year	Hectares	Year	Hectares	Year	Hectares	Year	Hectares
1958	112,465	1969	85,320	1980	57,327	1991	40,220
1959	109,308	1970	84,354	1981	54,974	1992	37,517
1960	105,677	1971	82,831	1982	53,604	1993	35,478
1961	105,265	1972	80,057	1983	56,690	1994	34,342
1962	104,718	1973	76,822	1984	54,443	1995	31,693
1963	104,006	1974	73,064	1985	50,853	1996	28,885
1964	102,191	1975	69,918	1986	47,946	1997	25,990
1965	99,478	1976	67,018	1987	46,487	1998	24,510
1966	94,744	1977	65,174	1988	45,244	1999	18,704
1967	89,992	1978	63,256	1989	43,427	2000	12,802
1968	87,993	1979	60,165	1990	41,847		

Sources: Department of Statistics Malaysia, *Rubber Statistics Handbook*, various years 1969- 2001; Department of Statistics Malaysia (1989). *State/District Data Bank 1987/88*, p.211; Department of Statistics Malaysia (1990). *State/District Data Bank 1989*, p.201; Thomas & Fong Chu Chai (1968). *Rubber Industry Statistics*, Research Institute of Malaya.

Note: Hectarage figures from 1958-1973 have been converted from acres in the original source.

(1 hectare = 2.471 acres)

The reasons for switching from rubber to oil palm have been mentioned in the previous chapter. Although this began gradually from the colonial period, it was from the 1980s that the momentum gathered to transform the agricultural landscape of the state. It was in the 1980s that oil palm surpassed rubber as the largest agricultural crop in the state (see Table 7.5.1). The history of the development of rubber in Perak where the rapid expansion of rubber in the smallholder sector eventually exceeded the estates, both in hectarage and production, has not yet happened in oil palm cultivation. During the period 1981-2001, the smallholder sector had increased by almost five-fold while the estates by about three-and-a-half fold. The rapid expansion in the oil palm smallholding sector in



the 1980s and 1990s, however, did not manage to surpass the estate sector which remained the dominant player in the oil palm industry, controlling about 61% of Perak's oil palm hectareage (see Table 7.5.4). The same period also witnessed a more serious involvement of the federal and state governments through their agencies in crop diversification initiatives in Perak as shown in the increase of 72,066 hectares in oil palm cultivation. It is also interesting to observe that RISDA too, a federal agency, formed to assist rubber cultivation among smallholders, had also been actively involved in mini-estate oil palm cultivation. From a hectareage of only 275 hectares in 1981,<sup>76</sup> it had increased to 32,891 hectares in 2001<sup>77</sup>. This makes it second to FELCRA which owned 33,401 hectares, a small difference of only about 500 hectares.

**Table 7.5.4 Perak: Oil palm hectareage by sector, selected years**

Sector/Year	1981	1991	2001
Estates	54,331	199,641	242,366
Smallholdings	9,281	30,137	55,322
Federal/state agencies	27,724	71,357	99,790
Total	91,336	301,135	397,478

Sources: Perak Agriculture Department (1982). *Laporan Tahunan 1981*, Table 21, pp.24-27; Perak Agricultural Department (1992). *Laporan Tahunan 1991*, Appendix 3, p.39; Perak Agricultural Department (2002). *Laporan Tahunan 2001*, Appendix 5, p.27.

Land utilisation during the decline of rubber was principally replaced and further expanded by oil palm cultivation. Other agricultural crops such as padi, coconut, and cocoa that were once important economic activities had either maintained or declined in hectareage.<sup>78</sup> Orchard farming gained some popularity so that the hectareage had more than doubled in the post-1980 period, indicating the increase in demand for orchard products. Not limited to the private sector, the state too had a hand in crop diversification and in

<sup>76</sup>Perak Agriculture Department (1982), Table 21, p.27.

<sup>77</sup>Perak Agriculture Department (2002), Appendix 5, p. 27.

<sup>78</sup>See Table 7.5.1.

promoting oil palm cultivation after the decline of rubber as about a quarter of the total hectareage in 2001 was under government-initiated schemes.

## **7.6 Summary and conclusion**

The unbalanced and dependent economy of Perak, which had primarily depended on tin and rubber during the early decades after independence, posed serious problems for the state. This is particularly so when reliance on commodity trading exposes the economy to the fluctuations in world demand and prices. While it was tin and rubber that had underpinned the state economy and enabled it to become one of the most successful states in Malaya in the colonial period, it was these same commodities that caused the state to struggle in maintaining its economic development during the post-independence period. The initiatives undertaken by world producers and consumers of these commodities to match supply and demand as well as to stabilize prices through the establishment of ICAs also did little to benefit the state. By 2000, both the ITA and INRA were dead.

The rapid deterioration of tin production in the 1970s and more so in the 1980s only confirms that tin was no longer the pre-eminent industry in the state. At the state-level, the attention given to the tin industry was also declining at an equal rate. In Perak's Fourth Malaysia Plan (1981-1985) the strategic focus on tin mining development was only mentioned briefly, and in subsequent plans it was omitted altogether; focus began to be diverted to value-adding initiatives in other minerals such as kaolin, limestone, granite, and clay to help subsidise the loss of revenue from tin. These minerals, however, were not in abundance as tin once was. At the same time as declining attention given to

the tin industry, priority was directed to the development of the manufacturing sector to help absorb the labour made redundant by the tin industry. This too was in line with the import-substitution, and later export-promotion programmes initiated by the Federal Government.

The change in direction eventually saw the growth of the industrial sector in the state. What was lacking in the early industrial development programme was the over-emphasis placed on locating industrial development in the tin districts where it was expected to have large unemployment without the appropriate balance given to the other districts. Between 1976 and 1985 a total of 290 (74%) industrial projects were located in the Kinta and Larut Matang districts.<sup>79</sup> In other districts, the limited industrial development initiatives carried out were concentrated at selected urban sites. While the development of the industrial projects in the tin districts helped to provide new opportunities for the ex-mining labour, it also attracted new labour. What transpired was the movement of labour both as a result of intra-state and inter-state in-migration to these districts. In the policy move towards economic diversification, it seems that the urban population was better placed to benefit during the initial shift towards manufacturing industrialization.

When tin was fast depleting, the growth in the rubber industry was the result of smallholder involvement. Expansion in this sector was the result of an administrative policy undertaken by the government in the form of replanting and the encouragement to raise rural incomes as part of the NEP initiatives. This too helped mitigate a more severe exodus of rural population to the urban areas in search of work. The growth of rubber

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<sup>79</sup>Calculated from Table 7.4.4.

productivity until the late 1980s, however, has given a false impression of a healthy industry, where in fact there was a significant loss of hectareage compensated for by higher yields. While promoting higher income for the rural population is a justifiable and noble initiative of the state, leading them primarily into rubber does not seem to have fully benefited them. It does not seem beneficial as the estate, vis-à-vis the private sector, had long diversified into other agricultural crops, in particular oil palm. Although crop diversification to oil palm took place, particularly from the 1980s, the change was still slow among smallholders; the most drastic changes were those undertaken by federal and state agencies. By the end of the decade, the state agricultural landscape witnessed a better balance between rubber and oil palm cultivation, with the smallholders as the major producers for the former and the estates for the latter. Overall, the state seemed to have succeeded in its agricultural policy of crop diversification from solely relying on rubber but it was at the expense of the smallholders; but encouraging rubber cultivation among smallholders did improve income. However, the results could have been better if oil palm cultivation had been encouraged as this crop had proven to be a more robust income-earner, at least during the period under consideration. There was no significant improvement witnessed in other crops.

The over-dependence on two primary commodities had provided a valuable lesson for Perak in that the economy had to be based on a much broader footing. Focus could not be directed only to limited sectors where a decline there would severely affect the state economy. Positive diversification was necessarily encouraged and supported by the state in its efforts to reorganise of the economy. This change in the role of the state in

reorganizing the economy in the period 1981 to 2000 will be examined in the next chapter.

## **CHAPTER 8**

### **THE CHANGING ROLE OF THE STATE IN REORGANIZING PERAK'S ECONOMY (1981-2000)**

#### **8.1 Introduction**

The post-1980 decade demonstrate another era of change in the economic development of Perak. The policies undertaken by Perak in moving towards further economic development after the 1969 'race riot' did not show much progress in the 1970s. By 1980 the NEP had already reached its half-way mark but was far from meeting its principal objectives. The role of the state in economic development needed reviewing. It was hoped that such a review would help organise the state economy. In 1990 when the NEP had reached its target date, the government replaced it with the NDP. Although the fundamental direction of the state economy in the 1970s had been appropriate, the post-1980 period required more to be done in fine-tuning existing economic policies, diversification into new areas, and the introduction and implementation of new policies. The impact of the fast-changing global economic environment too had a strong influence on local economic circumstances in the post-1980 period. As a result the state had to adapt to these changing demands which eventually also led to changes in the socio-economic characteristics of the population. This is particularly apparent in the changes in labour patterns among the various sectors of the economy. This chapter therefore examines the role of the state in economic policies and activities in relation to Perak.

## **8.2 Diversification from a natural resource-based economy**

The foundation of Perak's economic progress was the colonial heritage of a relatively prosperous economy that relied principally on tin and rubber, and on a smaller scale, those traditional economic activities such as smallholder production of rice, rubber, and small-scale fishing. The active development of the tin and rubber industries also meant that the physical infrastructure of Perak was reasonably well developed which provided the basis for further economic development. The emphasis on development in the immediate post-independence period, particularly up to 1970, saw only limited state involvement in the manufacturing industry, though this began to take shape in the early 1960s.

Diversification in Perak's economy can be first seen in the agricultural sector where rubber cultivation was gradually superseded by the rapid expansion in oil palm cultivation. This diversification was mainly undertaken by estates rather than smallholders, and involved only a limited labour expansion. In the previous chapters, we have seen how the over-reliance on a limited range of primary commodities and price volatility had affected Perak's economy. At the same time, the potential of value-added spin-off from tin, which was expected to expand, also deteriorated as tin production declined. This is evident from Table 8.2.1 below, which shows that in the post-1980 period the value-added contribution from mining to the state economy began to decline, in that the 1990 contribution represented about a quarter of the contribution of about a decade before. Along with the gradual demise of tin as a principal commodity export for the state, the importance of value-added activities followed suit. The decline in tin

production therefore not only resulted in the displacement of those directly involved in tin mining operations but also to those in the downstream value-added activities. The state therefore faced a problem because labour was being displaced from both its tin and rubber industries. Another key factor that compounded the need to diversify Perak's economy was the increase in population which eventually saw an increase in the labour force.<sup>1</sup>

**Table 8.2.1 Perak: Mining value added 1971-1990**

Year	RM '000	Year	RM '000	Year	RM '000
1971	260,120	1978	428,610	1985	262,908
1972	242,177	1979	501,690	1986	154,500
1973	252,850	1980	n.a	1987	148,665
1974	382,598	1981	419,390	1988	162,367
1975	290,041	1982	n.a	1989	224,040
1976	343,827	1983	359,108	1990	126,439
1977	363,687	1984	313,973		

Source: EPU, Malaysia (1995). *Statistical Data for Gross Domestic Product*, Table 11 (unpub.).

The intention to diversify the economic base into industrialisation had been a state strategy since independence, although in the agricultural sector it had been taking place since the colonial period.<sup>2</sup> The diversification was implicitly referred to from the late 1950s and was later made explicit in the first two Malaysia Plans for Perak (1966-1975). The diversification programme into non-resource industrialisation, however, did not see much progress during this early period. The Federal government policy in the 1960s, which aimed to move away from the narrow range of commodities, promoted import-substitution industrialisation (ISI) in Perak, concentrating mainly on the district of Kinta. This industrialisation programme managed to provide much-needed jobs in the state as it was based on labour-intensive and assembly-type industries. However, the saturation of

<sup>1</sup>For population and labour force distribution 1957-1980, see Tables 6.7.1 and 6.7.2 in Section 6.7.

<sup>2</sup>Specifically, Perak did not have any economic niche industry after the decline of tin (Interview with Dato' Hamdan Hazizi, former Chief Executive Officer of PSDC 1975-1992, and currently the Chairman of Gopeng Berhad in October, 2002).



the small domestic market and the lack of linkages that this kind of industrialisation had to offer led to the shift in national economic policy towards export-oriented industrialisation in the 1970s, which continued in tandem with the ISI until the mid-1980s.<sup>3</sup> It then became the dominant approach from about 1985.

The economic diversification programme in Perak was similar to that undertaken in other states in Malaysia as the Federal Government prescribed the main policies governing economic development in the country. However, their implementation was left mainly to individual states.<sup>4</sup> Diversification from the natural-based economy to resource-based industrialisation had generated a shift in Perak's demographic structure. The population of the state had grown faster in the pre-1980<sup>5</sup> compared to that in the post-1980 period (see Table 8.2.2). As a result of the economic diversification initiatives undertaken by the state, the most significant change was the shift of population from the rural to the urban sector. Rural development programmes were an important government initiative from 1970 as they were part of poverty reduction measures under the NEP. However, outflows of population and labour from the rural areas to the cities seemed unstoppable. With only about 32% of the state population residing in the urban areas in 1980, diversification of the state economy into industrialisation saw a subsequent rapid population movement into urban areas which eventually almost doubled to about 60% in 2000. The negative population growth in the rural sector over the two decades is also shown in Table 8.2.2.

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<sup>3</sup>Perak's involvement in industrial development was much later than other states in Malaysia, which depended on spill-over effects from other adjacent states (Interview with Dato' Harun Saruji, CEO of PSDC 1993-1997 on 23/10/2002).

<sup>4</sup>Confirmed by Datuk Ahmad Koncong, former Deputy State Secretary (Economic Development), 2000-2004 during interview in October 2002)

<sup>5</sup>See Tables 6.7.1 and 6.7.2 in Section 6.7.

Although these changes in demographic structure might signify that the population had responded well to the state's economic diversification programmes, it also suggests that the rural development programmes, mainly based on agriculture had limitations and were not completely successful in retaining the rural population.

**Table 8.2.2 Perak: Urban and rural population 1980-2000, selected years**

Sector	1980		1991		2000		Average Growth (%)		
	('000)	%	('000)	%	('000)	%	1980-1991	1991-2000	1980-2000
Urban	562.2	32.2	1,070.0	53.6	1,267.4	59.5	8.2	2.1	6.3
Rural	1,181.5	67.8	925.3	46.4	862.7	40.5	-2.0	-0.8	-1.4
Total	1,743.7	100.0	1,995.3	100.0	2,130.1	100.0	1.3	0.8	1.1

Sources: Department of Statistics Malaysia (1980). *General Report of the Population Census 1980*, Vol.2, pp.1-2; EPU, Malaysia (1996). *Profil Negeri Perak Darul Ridzuan*, Prime Minister's Department Table 1, p.4 (unpub.); EPU, Perak (1998). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan*, Table 3.2, p.20; EPU, Perak (2002a). *Pembangunan Ekonomi dan Industri Negeri Perak, Seminar Sasaran Kerja Tahun 2002/2003*, p.3 (unpub.); Department of Statistics, Malaysia (2000). State/District Data Bank, pp.1, 18, 247.

The population shift in the context of diversification into industrialisation in Perak obviously resulted in the growth of urban centres (see Table 8.2.3). While growth took place in most of the major towns in the state, there were some exceptions in the ex-mining towns. Apart from the state capital, Ipoh, which saw continuous growth in the post-1980 period, Kampar and Taiping did not increase in tandem. For Taiping, the positive growth of 2.9% in the 1980s dwindled to a negative growth of 0.1% in the 1990s. The sudden decline in population after a decade of positive growth was mainly due to the decline in the textile and clothing industry which was a prominent economic activity in the area in the 1980s. In the case of Kampar, the town had never experienced any upsurge in population because, although situated in the same district as Ipoh in the district of Kinta, economic diversification into industrialisation was mainly concentrated in the vicinity of Ipoh, at the expense of Kampar.

The economic diversification programme did achieve some success. Revenues from the state alone, excluding federal grants, had improved significantly from the RM22.37 million in 1957 to RM109.96 million in 1980, and further increased to almost triple to RM326.53 million in 2000.<sup>6</sup> The revenue from tin had been declining so rapidly, that in 2000, it had become so insignificant and stood at only RM200,000.<sup>7</sup> Economic diversification too had created a shift in sectoral contributions in the overall state economy. The primary sector that represented the largest component at 43.6% in 1980 had reduced by more than half to 20.1% in 2000, and there was almost a reciprocal increase in the secondary sector.<sup>8</sup> With the increase in the secondary sector, significant improvement was also witnessed in the tertiary sector which together resulted in a better sectoral balance in the economy.

**Table 8.2.3 Perak: Urban population growth rates 1980-2000 (percent)**

Urban centre	1980-1991	1991-2000
Ipoh	6.1	2.2
Taiping	2.9	-0.1
Manjung	9.3	4.5
Kuala Kangsar	5.0	0.6
Teluk Intan	2.2	-0.3
Batu Gajah	10.8	4.3
Kerian	1.9	7.8
Bidor	6.0	3.2
Tapah	2.3	4.9
Kampar	-0.5	-1.9
Tanjung Malim	4.3	3.0

Source: EPU, Perak (2002a). *Taklimat Pembangunan Ekonomi dan Industri Negeri Perak*, Seminar Sasaran Kerja 2002/2003, p.4 (unpub.).

<sup>6</sup>For Perak’s total revenues and expenses 1957-2000, see Appendix 8.

<sup>7</sup>State of Perak (2002). *Estimates of Revenue and Expenditure*, p.18.

<sup>8</sup>See Table 8.9.3 in Section 8.9.

### 8.3 The 'new' investment policy for state economic development

From 1981 under the Fourth Malaysia Plan Perak began to redirect its development investment strategy. Although rural development remained an important item on the agenda,<sup>9</sup> priority was given to trade, industrial development, and services. The emphasis was that these priority activities should be spread across the state to allow for balanced regional development.<sup>10</sup> Economic policy also envisaged that the private sector would take the lead role in providing as much as two-thirds of the investment in these initiatives with the balance coming from the state;<sup>11</sup> private investment was assumed to come from local investors. Ironically, even though state plans in the 1980s made no mention of actively attracting foreign investment, such forms of investment totalled RM268.5 million or about 29% of industrial investment equity in 1980-89.<sup>12</sup> The investment from the state for the economic development of Perak in the 1980s under both the Fourth (4MP) and Fifth Malaysia Plans (5MP) was RM4,639.8 million (see Table 8.3.1). Although the allocations provided for the economic sector for both the 4MP and 5MP represented about the same percentage of between 56% to 59% of the overall allocations, a larger portion was allocated for industrial development, particularly in the establishment of industrial zones and estates,<sup>13</sup> and infrastructure.

The state faced challenging circumstances during the 5MP when there was a global downturn in the demand for electronics and primary commodities in 1985-86. This had a

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<sup>9</sup>See Table 8.2.2 in Section 8.2.

<sup>10</sup>Ahmad acknowledged that economic development had been uneven among the regions in the state during prior periods (interview in October 2002).

<sup>11</sup>Perak (1981), p.78A.

<sup>12</sup>Calculated from Table 8.7.1 in Section 8.7.

<sup>13</sup>For establishment of industrial zones and estates in Perak in the post-1980 period, see Section 8.4.

severe impact on the country's financial position and saw the allocations to states curtailed. Perak's allocation was reduced by about a fifth from its previous amount in the 4MP. This period saw local and foreign investments reduced drastically before bouncing back towards the end of the 5MP.<sup>14</sup> When development allocations were reduced, the state was also under great pressure to expand development in the social sector, particularly in reducing poverty and redistributing wealth within the multi-ethnic population, since it was in the final five years of the NEP. While the increase of investment and allocations in the economic sector could have cushioned the impact of the global downturn, the state had to increase its allocations in the social sector which increased by almost 50% from the previous period (4MP).

**Table 8.3.1 Perak: Allocations under Fourth-Seventh Malaysia Plans, 1981-2000 (RM Million)**

Sector	4MP (1981-1985)	5MP (1986-1990)	6MP (1991-1995)	7MP (1996-2000)
Economy	1,478.0	1,182.8	1,546.0	2,077.7
Social	369.5	545.6	656.0	1,606.3
Security	751.6	223.8	206.0	338.9
Administration	42.6	45.9	154.0	177.1
<b>Total</b>	<b>2,641.7</b>	<b>1,998.1</b>	<b>2,562.0</b>	<b>4,200.0</b>

Sources: EPU, Perak (1993), *Bank Data Negeri Perak (Perangkaan Asas)*, p.27; EPU, Perak (2000) *Briefing Note on Economic Development of Perak State*, pp.23-5 (unpub.); EPU, Perak (2002c) *Address to International Participants of Diplomatic Training Course*, October 21 2002, p.7 (unpub.).

In the 1990s, development initiatives were steered by the Sixth (6MP) and Seventh Malaysia Plans (7MP) along with the NDP. Shortly before the launching of Perak's 6MP the Federal Government also launched 'Vision 2020' which aimed to achieve a fully developed industrialised status for Malaysia by the year 2020. Blending the national vision into state development programmes, investments in the manufacturing and service sectors were again promoted. Perak set a target that by 2020 the GDP structure in the

<sup>14</sup>As a consequence of the global economic downturn industrial project investment in Perak in 1987 hit an all-time low for the post-1980 period at only RM33.5 million (see Table 8.7.1 in Section 8.7).

primary, secondary, and tertiary sectors would be 15%, 30%, and 55% respectively.<sup>15</sup> In 1990 the prevailing GDP structure was 33.6% for the primary sector, 22.6% for the secondary sector, and 43.8% for the tertiary sector.<sup>16</sup>

With the development targets prescribed above, manufacturing industry, which was given priority in the 1980s, continued to be the focus of development policy in Perak in the 1990s to further reduce poverty, increase standards of living, and restructure society in line with national aspirations.<sup>17</sup> Resource-based manufacturing, utilizing local resources and labour-intensive production which provided the much-needed growth and sectoral linkages initiated in the 1980s, was also extended into the 1990s. In fact, local sourcing became a crucial criterion for the provision of incentives<sup>18</sup> in the late 1980s to encourage the small-medium industries (SMIs) to expand, upgrade, and modernize their activities.<sup>19</sup> These incentives became part of the initiatives to promote state investment policy. To further expand the manufacturing sub-sector, foreign investment became one of the explicit strategies to support Perak's economic development policy.<sup>20</sup> This policy achieved substantial investment expansion in the 1990s, so that, although industrial projects carried out in the 1980s and 1990s were about equal in number, the latter managed to attract a total of RM16,980.1 million in investment. It was an increase of

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<sup>15</sup>EPU, Perak (1995b). *Taklimat Rancangan Malaysia KeTujuh (1996-2000) bagi Negeri Perak*, February, Ipoh, p.3.

<sup>16</sup>See Table 8.9.3 in Section 8.9.

<sup>17</sup>Ahmad, however, argued that the focus of state development policy was not only limited to manufacturing but also to reduce regional development gap as well as to upgrade human resource capabilities (interview in October 2002).

<sup>18</sup>Rajah Rasiah (1992). 'The Role of Foreign Manufacturing Firms in Industrial Development: A Case of Malaysia', Ph.D Thesis, University of Cambridge, p.88.

In addition to the incentives mentioned in Table 6.8.2, the Federal Government introduced export-refinancing facilities that enable credit facilities at preferential rates to Malaysian exporters in 1977.

<sup>19</sup>In 1993 about 80% of the manufacturing sector in Perak consisted of SMIs. [Johnson, M. (1993). 'The Northern states link together' in *Euromoney*, London, July, p.10]

<sup>20</sup>EPU, Perak (1995b), p.6.

more than five-fold<sup>21</sup> compared to the previous decade. This rapid expansion also signified the move towards high technology and capital-intensive industries.

In the move to promote rapid growth in manufacturing, the direct involvement of the state government in ensuring the success of its investment policy and providing an attractive environment for investors was clearly visible. The most obvious was the establishment of industrial zones and estates by the state or its agencies, particularly by the PSDC. By 1998 the state had 86 such establishments covering about 6,000 hectares of land.<sup>22</sup> While these initiatives allowed investors and entrepreneurs to locate manufacturing operations in these designated areas, simultaneous direct involvement and investment by the state on the basis of a public enterprise strategy in the manufacturing sector can also be seen. By 1989, the state had invested in 12 manufacturing companies including two that were wholly owned by the state government.<sup>23</sup> At the same time the establishment of a one-stop Centre of Investment (COI) was an initiative to provide an efficient approach in all investment protocols.

In the 1990s, apart from the attention given to the manufacturing sector, investment was also directed to the service sector, principally to develop Perak as a popular destination for tourists and promote it as a hub for educational centres of excellence. While the tourism sub-sector was seen as the key driver to accelerate growth, the educational centres were directed at providing educated and skilled workers for the labour market,

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<sup>21</sup>Calculated from Table 8.7.1 in Section 8.7.

<sup>22</sup>See Table 8.4.1 in Section 8.4.

<sup>23</sup>See Table 8.5.4 in Section 8.5.

and at the same time contributing to the local economy.<sup>24</sup> In the second-half of the decade approaching the new millennium, with the economic focus still on promoting manufacturing, state investment to upgrade infrastructure, particularly in transport and communication,<sup>25</sup> was seen as a strategy not only benefiting manufacturing but encompassing all sectors.<sup>26</sup>

Economic development planning in Perak in the 1990s adopted a more systematic approach in that development corridors were established to achieve more a regional balance. Establishment of the four corridors<sup>27</sup> also allowed a greater investment focus with each corridor specializing in niche areas, particularly in access to resource materials and markets:<sup>28</sup> the Southern Corridor covering Tanjung Malim-Slim River and Teluk Intan–Hutan Melintang was to be focused on automotive, ceramic and education industries; the Central Corridor covering Ipoh-Lumut focused on engineering, pharmaceuticals, marine-related activities, tourism, and other auxiliary industries;<sup>29</sup> the North-eastern Corridor covering Hulu Perak-Selama focused on eco- and agro-tourism, agriculture, and wood-based industries; and the Northern Corridor covering Parit Buntar-

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<sup>24</sup>During 7MP education and training received RM1,151.3 million (72%) of the funds allocated under the social sector. [EPU, Perak (2000). *Briefing Note on Economic Development of Perak State*, p.24]

<sup>25</sup>Transport and communication was allocated RM1,430.1 million (69%) of the economic sector allocation during 7MP. [Ibid.]; Unavailability of good transportation system seemed to be the key problem that mitigated economic development in Perak (Hamdan, interview in October, 2002).

<sup>26</sup>The state government had rightly spent huge amount of money in infrastructure development in view of anticipated economic development progress (Ahmad, interview in October, 2002).

<sup>27</sup>EPU, Perak (1999a), Table 9.1 & 9.2, pp.71-2; EPU, Perak (1999b). pp.11-2.

<sup>28</sup>Separation of specialised industrial focus between corridors was largely due to different economic conditions between them (Ahmad, interview in October, 2002); Economic development in Perak concentrated more in the north-south rather than east-west directions (Hamdan, interview in October, 2002).

<sup>29</sup>The extremely slow development progress of this corridor was caused by the delay in constructing the Ipoh-Lumut highway (Ahmad, interview in October, 2002). To date, the construction of this highway has still not been completed.



Taiping focused on auxiliary industries to support manufacturing activities in Perak as well as the northern states.

The investment policy of the state during the last two decades had been transformed from one based on natural resources to one based on industrial production. But, although investment policy achieved some favourable results, the speed with which it was moving was still sluggish compared to other states such as Penang, Negeri Sembilan and Johor – states which lacked any significant industrial tradition to begin with. The challenge for Perak then was to maximize activities in the already identified sub-sectors, though, as we shall see, achievements were rather mixed and the overall programme fell short of expectations.

#### **8.4 Establishment of industrial estates**

In theory, the development of industrial areas in Perak can be divided into three categories: industrial estates developed by government agencies, those developed by the private sector, and industrial zones.<sup>30</sup> In practice, however, there seems to be a misconception in that available reports tend to mix these categories, and infrastructure provisions for the development of these areas, in most cases, tend to be the same, because local councils compete to develop industrial estates in their respective districts, and the state develops industrial areas jointly with the private sector.<sup>31</sup> In this section, no explicit

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<sup>30</sup>EPU, Perak (1996), p.5.

<sup>31</sup>Industrial zones, by definition, comprise state land that has been designated for industrial purposes by the state authorities. They are later subdivided and alienated to individual owners who bear responsibility for developing them.

distinction will be made between industrial estates and industrial zones; all these categories will be referred to as 'industrial estates'.

As I have already indicated industrial estate development in Perak started with the establishment of Tasek Industrial Park near Ipoh in the early 1960s as part of the state plan to become involved in an import-substitution programme championed by the federal government.<sup>32</sup> It was later expanded in the 1970s, when an export-oriented strategy was initiated and implemented concurrently with the earlier programme. Despite investors taking up only 24% of the industrial lots developed at Tasek in the early 1970s,<sup>33</sup> the state continued its industrial estates development programmes. By 1980, a total of seven estates were established in Perak with three in the district of Kinta, two in Larut Matang, and one each in Kuala Kangsar and Kerian.<sup>34</sup> While the state government, mainly through the PSDC, developed these industrial estates, the post-1980 period saw a considerable increase both in the number of estates established and the participation of the private sector.

Direct involvement of the state government in industrial estate development continued in the post-1980 period so that by the end of 1994 it had established a total of 25 estates throughout Perak,<sup>35</sup> excluding privately developed ones. Nationwide, this achievement was second only to Selangor, which had a total of 27 state-developed industrial estates,

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<sup>32</sup>See fn. 107 in Chapter 6.

<sup>33</sup>Perak (1976), p.18.

<sup>34</sup>See Table 6.8.6 in Section 6.8.

<sup>35</sup>EPU, Perak (1996), Table 7.

and equal to Johor, also with 25 estates.<sup>36</sup> It seems that there was competition between the states as to which could develop the greatest number within the country, irrespective of whether the state had the capacity to attract investors.

The remarkable increase in industrial estates in Perak continued and in 1998, a total of 86 was established comprising state-developed, jointly developed, and those established by the private sector (see Table 8.4.1 and Map 8.4.1). The district of Kinta, which had three industrial estates in 1980, saw a fourteen-fold increase to 42 in 1998. The *Mukim* of Kampar in Kinta district, which was once the key economic centre during the tin era, and had not seen any significant industrialisation activities in the 1960s and 1970s, began to show some signs of change in the post-1980 period with five industrial estates established. Designed to handle light industrial activities, these estates constituted only 3% of the total hectarage developed for industrial purposes in Kinta. However, the poor showing of industrial development in Kampar suggests that the pre-eminent tin district had failed to reinvigorate its industrial past.

In Kinta, the establishment of industrial estates during this period seems to have been an expansion of the previous decades, concentrated in the vicinity of Ipoh in *Mukim* Ulu Kinta. Only about 15% of the total industrial estate hectarage was established outside this *mukim*. Within the district, industrial estate development was still lopsided but Kinta's contribution to Perak as a whole was prominent as about 48% of the industrial estates hectarage was situated in this district (see Table 8.4.2). Out of the three remaining districts of Larut Matang, Kuala Kangsar, and Kerian, which had established industrial

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<sup>36</sup>Ibid.

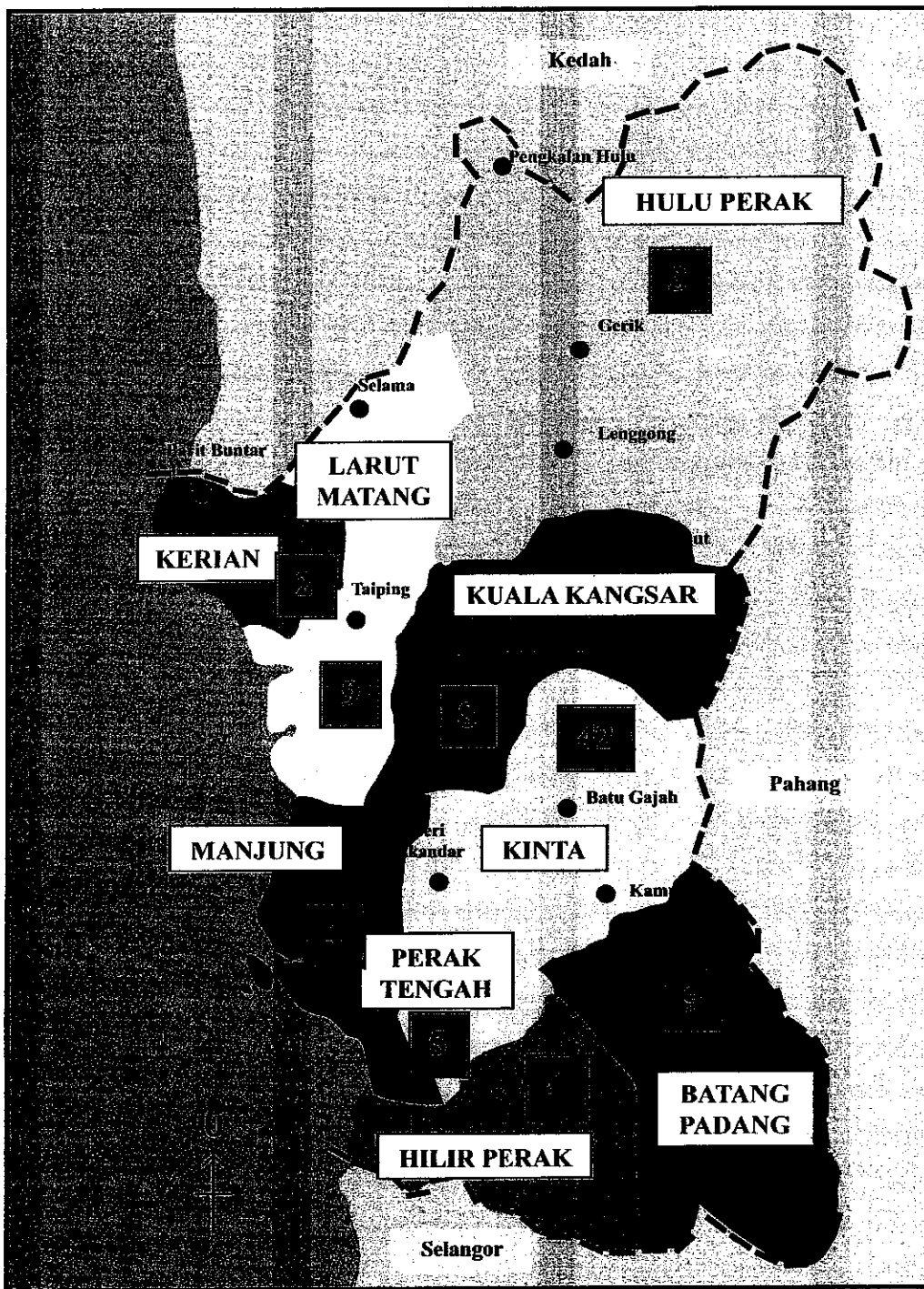
**Table 8.4.1 Perak: Industrial zones and estates 1998 by district**

District	Mukim	Industrial zones (hectares)	Industrial estate (hectares)	Type of industry	District	Mukim	Industrial zones (hectares)	Industrial estate (hectares)	Type of industry
<b>Kinta</b>					<b>Kuala Kangsar</b>				
Jalan Chemor/Sg. Siput	Ulu Kinta	12.9	199.2	Light	Kuala Kangsar (PKNP)	Kota Lama Kiri	30.4	50.2	Light/General
Kanthan	Ulu Kinta		83.0	Heavy/General	Selaak	Kota Lama Kanan			General
Batu 10 Klabang	Ulu Kinta		59.5	Ceramic	Sungai Siput	Sg. Siput (U)	24.2		Light
Kinta FTZ	Ulu Kinta		210.5	Light/Heavy	Kg. Muntab, Sg. Siput	Sg. Siput (U)	4.9		Workshops
Taman Meru	Ulu Kinta		149.3	Light	Sungai Siput/Chemor	Sg. Siput (U)	140.5		Light
Tasek (DBI)	Ulu Kinta		118.5	General	Kampung Koboi	Sg. Siput (U)	80.9		n/s
Tasek (IGB)	Ulu Kinta		40.5	Light	Kampung Sentosa, Sg. Siput	Sg. Siput (U)	12.1		n/s
Tambun	Ulu Kinta			Light	Simpang Lawin	Kg. Buata	60.7		n/s
Bercham	Ulu Kinta	70.0		Light	Total		329.4		
Jelapang (DBI)	Ulu Kinta		41.5	Light	<b>Kerian</b>				
Jelapang Tambahan II FTZ	Ulu Kinta		51.4	Light/Heavy	Parit Bunlar	Parit Bunlar	18.3	88.4	General
Jelapang Tambahan I	Ulu Kinta		64.0	Light	Kuala Kurau	Kuala Kurau	18.3	88.4	General
Taman Pertama	Ulu Kinta		16.9	Light	Total				
Menglenbu Ptl. 1, 2, 3	Ulu Kinta	84.2		Light/General	<b>Perak Tengah</b>				
Jalan Lapangan Terbang	Ulu Kinta	76.6		Light	Seri Iskandar	Bota	1.9	80.9	Light
Bukit Merah	Ulu Kinta		8.1	Heavy	Changkat Cemrin	Bota	3.3		n/s
Pengkalan I	Ulu Kinta		16.6	Light/General	Km.1 Jin Kg. Gajah/Tg. Tualang	Kg. Gajah	15.4		n/s
Pengkalan II	Ulu Kinta		50.2	Light/General	Bt.31 Jin Kg. Gajah/Tg. Tualang	Kg. Gajah	23.2		n/s
Klabang	Ulu Kinta		261.5	Light	Sg. Ranggani, Kota Sela	Kota Sela	43.8	80.9	
Tronoh	Ulu Kinta		354.3	Light	Total				
Kampung Timah	Blanje	33.2		Light	<b>Hulu Perak</b>				
Jalan Kampar/Teluk Intan	Tg. Tualang	72.4		Light	Pengkalan Hulu	Keroh	28.3		Light
Kampar	Kampar	2.8		Light	Bendariang	Gerik	20.0		Light
Kampar	Kampar	6.1		Light	Kampung Baru Bt.2	Gerik	50.2		Mixed
Wan Loong	Kampar	3.2		Light	Total		98.5	0.0	
Jalan Degong, Kampar	Kampar	10.5		Light	<b>Batang Padang</b>				
Batu 1/2 Simpang Pulai	Kampar	8.1		Light/General	Mambang Diawan	Chenderiang	12.1		Light
Keramat Pulai	Sg. Raia	21.0		Light	Mambang Diawan (T)	Chenderiang	10.1		Light
Changkat Larang	Sg. Raia	50.2		Light/General	Jalan Tapah/Bidor	Balang Padang	8.1		Light
Jalan Pusing/Batu Gajah	Sg. Terap	47.8		Light	Bidor Oil Mills	Bidor	89.0	24.3	Light/General
Jalan Kota Bahru/Gopeng	Sg. Terap	6.1		Light	Slim River	Slim River	27.5		n/s
Kaw. Perindustrian K. Kangsar	Teja	47.5		n/s	Behrang Station	Ulu Bemam	186.2		Light
Kaw. Perindustrian Pkin. Gate	Ulu Kinta	16.6		n/s	Sungai Perangin	Ulu Bemam	48.6		n/s
Kaw. Perindustrian MARA	Ulu Kinta	15.3		n/s	Kampung Kelawar	Ulu Bemam	80.9		n/s
Pengkalan II (Fasa I)	Ulu Kinta	1.9		n/s	HICOM	Ulu Bemam	462.6	24.3	n/s
Khanian (Fasa I)	Ulu Kinta		261.5	n/s	Total				
Khanian (Fasa II)	Ulu Kinta		126.3	n/s	<b>Manjung</b>				
Sungai Raia	Ulu Kinta	31.0		n/s	Bt. Undan	Lumut	86.6	587.0	General
Bemban	Sg. Raia/Teja		40.5	n/s	Kampung Acheh	Lumut		28.1	Heavy
Total	Sg. Terap	617.4	2,320.9	n/s	Seri Manjung	Silawan	7.7	615.1	Light/General
<b>Larut, Matang &amp; Selama</b>					Kg. Che Puth, Bruas	Bruas	94.3		
Kampung Permai Selama	Selama	4.0		Light	Total				
Kemunting	Asam Kumbang		304.9	Light/General	<b>Hilir Perak</b>				
Kampung Boyan	Asam Kumbang	14.6		Light	Bt.6 Jin Tk Intan-Ckt. Jong	Durian Sebatang	332.1		Light
Simpang	Asam Kumbang	8.5		Light	Bt.71/2, Jin Ckt. Jong	Changkat Jorg	51.8		Light
Tupai 1, 2, 3	Tupai		63.9	Light	Jin Langkap-Chui Chak	Changkat Jorg	121.5		Light
Jin Kampong Tengah, Selama	Selama	9.3		n/s	Bt.61/2 Jin Tk Intan-Ht. Melintang	Durian Sebatang	80.9		Light
Jin Taman Merdeka, Selama	Selama	12.1		n/s	Total		586.4	0.0	
Redang Panjang, Hulu Jlok	Ulu Jlok	20.2		n/s	<b>Grand total</b>		<b>2,521.9</b>	<b>3,572.8</b>	
Terong	Trong	202.3		Light					
Total		271.2	368.8						

Source: EPU, Perak (1998), *Buku Perangkaan Utama Negeri Perak Darul Ridzuan 1998*, pp.73-6.

Note: n/s - not stated

Unit converted to hectares from original source in acres.



**Map 8.4.1 Perak: Distribution of industrial zones and estates 1998 by districts**

**Table 8.4.2 Perak: Distribution of industrial areas 1998**

District	Hectares	Percent
Kinta	2,938.3	48.2
Larut Matang	640.0	10.5
Kuala Kangsar	403.8	6.6
Kerian	106.7	1.8
Perak Tengah	124.7	2.0
Hulu Perak	98.5	1.6
Batang Padang	486.9	8.0
Manjung	709.4	11.6
Hilir Perak	586.4	9.6
Total	6,094.7	100.0

Source: Table 8.4.1

estates during the pre-1980 period, only the former two had shown a significant increase in new estates. By 1998, Larut Matang and Kuala Kangsar had increased from two to nine estates and from one to eight estates respectively.<sup>37</sup> In almost two decades the development of industrial estates in Kerian had been sluggish as it managed to add only one other estate to the district.

During 1980-1998, industrial estate development had also spread to other districts with varying degree of success. The district of Perak Tengah, sandwiched between the two fast-growing districts of Kinta and Manjung, did not attain much success in establishing industrial estates due to the lack of appropriate infrastructure, amenities, and labour force. The long-delayed development of Seri Iskandar, the new self-contained township and district administrative centre supposedly to begin in the early 1980s, also contributed to the pace of industrial estate development in the district. A similar situation took place in Hulu Perak, the largest district in Perak. Along with Perak Tengah, these two were the least populated districts in the state, and had the least hectarage developed for industrial estates.

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<sup>37</sup>See Table 8.4.1.

During the post-1980 period, the districts that had shown remarkable success in establishing estates were Batang Padang, Hilir Perak, and Manjung providing 8%, 9.6%, and 11.6% of the total state industrial hectarage respectively. Although Hilir Perak and Manjung had only four industrial estates each, compared to nine estates in Batang Padang, these districts each have a large-hectarage anchor industrial estate like Kampung Aceh Industrial Estate in Manjung and Kawasan Perindustrian Teluk Intan-Cangkat Jong in Hilir Perak, capable of supporting the industrialisation needs of the districts.

Towards the end of the 1980s, there was a move on the part of the state to direct specialised industrial activities towards particular estates with the intention of bringing all related operators onto one site; where there would be common facilities and the provision of marketing and product support with the idea of forming a distinct focus and gradually moving to higher value-added activities. Pioneered with the centralisation of foundries, the Ceramic Park was also established in Kinta. Sometime in the mid-1990s similar efforts were also taken with the establishment of the Pharmaceutical Park in Perak Tengah covering an area of 114 hectares.<sup>38</sup>

The significant improvement in the development of industrial estates in Perak in the post-1980 period was not only made possible by the direct involvement of the state, but also the initiatives taken by private developers and joint ventures. Although continuous and consistent data are not available to map trends in the division between the industrial estate sectors, as of the end of 1994 slightly more than half of the estates were developed

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<sup>38</sup>PSDC (2002a). *Senarai Kawasan Perindustrian Sehingga 31/12/98*, Ipoh (unpub.)

by the state, 32% by the private sector, and 14% were jointly developed.<sup>39</sup> This development demonstrates that, despite the sharp increase in private sector involvement, the state played the key role in establishing industrial estates in Perak in the 1990s.

While there was a tremendous increase in the number of estates in Perak during the post-1980 period, their performance in terms of sales and actual industrial operations was not encouraging, particularly those which were state- and jointly-developed.<sup>40</sup> Up to the end of 1998, a total of 2,437.7 hectares of land in 66 industrial estates had been placed on the market for sale.<sup>41</sup> Despite the state government's active promotion and encouragement of industrial estates only 1,072.2 (44%) hectares of these estates were sold (see Table 8.4.3). Kinta, which had almost two-fifths of the industrial hectarage for sale, had shown a better performance with about 65% of the industrial land taken up by investors; the remaining eight districts managed to sell only about 30% of their existing industrial estate stock. While many factors can be attributed to the poor sales of these industrial areas, at least in

**Table 8.4.3 Perak: Industrial estates stock status 1998**

District	Sold		Unsold		Total area	
	Hectares	Percent	Hectares	Percent	Hectares	Percent
Kinta	614.0	65.4	325.6	34.6	939.7	100.0
Other districts	458.2	30.6	1,039.8	69.4	1,498.0	100.0
Total	1,072.2	44.0	1,365.4	56.0	2,437.7	100.0

Source: Collated from PSDC (2002a). *Senarai Kawasan Perindustrian Sehingga 31/12/98*, Ipoh (unpub.)

Kinta, the most profound reason was the glut of such industrial areas; and about half of these estates were relatively newly developed and required time to attract buyers. Out of those estates developed earlier during the late 1980s and early 1990s, the Ceramic Park

<sup>39</sup>Calculated from EPU, Perak (1996), Table 8.

<sup>40</sup>Statistics pertaining to sale of industrial lots by private developers are not available.

<sup>41</sup>This figure represents net available industrial areas for sale after deducting all necessary provisions for basic infrastructure development. The use of industrial lots to present sale performance is discarded since there were industrial estates that offered industrial lot size tailor-made for the buyer's requirements.



fared the worst. Although conceptually the idea of specialised industrial estates was a good one and had worked well with the foundry industries in the Pengkalan industrial area with a success rate of more than 85% of the industrial land being sold, 58% of the industrial hectareage at Ceramic Park was still unsold after almost a decade of its completion.<sup>42</sup>

There was also another problem, in that not all the industrial land sold was developed. In Kinta, for example, the Bemban industrial area comprising about 73 hectares had more than 90% of its area sold but less than ten industrial concerns were and still are operating in that area; in the Pharmaceutical Park in Perak Tengah, although only 18.13 hectares (42%) were sold out of the available land for sale, only two manufacturing concerns have been operating in this area up to now; and in Manjung, the Kampung Acheh Industrial Park sold all its available industrial land, comprising about 440 hectares subdivided into 101 industrial lots of various sizes, but to date only 47 of these lots have been developed.<sup>43</sup> Whether it was due to economic swings that discouraged further development on the individual industrial lots, or to speculative buying by investors with the hope of disposing of the lots at a later date is not certain. What is clear, however, is that the sale of industrial land was not a realistic representation of industrial development in the state.

In the post-1980 period, the development of industrial estates in Perak saw a dramatic increase; initially a state crusade to promote industrialisation in Perak, it later received

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<sup>42</sup>Calculated from PSDC (2002a). *Senarai Kawasan Perindustrian Sehingga 31/12/98*, Ipoh (unpub.).

<sup>43</sup>Ibid. Data for operating concerns are from current local knowledge and site inspection since actual statistics during the period are unavailable.

overwhelming support from the private sector. This development too had seen a more even distribution of these estates among the various districts rather than being solely concentrated in Kinta. It was also one of the state's main policies in balancing economic and social development, mitigating rural-urban migration, and also increasing the income of the rural population. However, despite this growth and a degree of achievement in diversification, failure to fully accommodate these industrial estates with investors and manufacturing concerns suggests that effort and resources should now be concentrated not on developing new estates but on further promoting the existing vacant sites.

## **8.5 The state as capitalist**

As we have seen, the changes in Perak from the 1980s had concentrated on the need of the state to diversify its economy from dependence on primary commodities, its promotion of a new direction for economic growth and development via industrialisation, and its provision of an environment for industrialisation to prosper. While this has been achieved with mixed outcomes, from success in the ability to diversify the economy to a modest accomplishment for the sale and implementation of operations on industrial lots, the achievement in the economy as a whole was not solely the result of the participation of private capital in the state economic system. This section will examine the participation of the state as capitalist in the development of Perak during the same period.

The involvement of the state in Perak's economy does not amount to state capitalism, which relies heavily on combining capitalism with state ownership. The system that has been in place in the post-independence period is based on a mixed economic system that lies between the socialist command economy and the capitalism of the market economy.

Despite the fact that some means of production are owned by the state, the bulk of the ownership is still in private hands. The state's adoption of this economic system became clearer in the 1970s, at least for two reasons: first, the introduction of the NEP gave a major role to the state in redressing the ethnic imbalance of equity capital and control of enterprises; and second, the state involvement as capitalist was needed to help expedite industrialisation as the main focus of the economy. Without the state taking the lead, the progress in economic diversification would have been much delayed.<sup>44</sup>

The state-capitalist character of Malaysia continued in the post-1980 period after the explosion of state enterprises in the 1970s.<sup>45</sup> Partly in an effort to continue stimulating the economy, the prolongation of this trend was also due to state intervention from the 1980s because the NEP targets, particularly for the *bumiputera* sector, were still far from being met. The incorporation of these enterprises was part of the state strategy to establish and increase *bumiputera* participation in the commercial and industrial sectors.<sup>46</sup>

There was a tremendous increase in the role of the state as capitalist, via the PSADC, in the agricultural sub-sector. In the decade of the 1970s the PSADC's involvement in developing agricultural land totalled 7,949 hectares comprising oil palm, rubber, coconut, tapioca, and cocoa.<sup>47</sup> In the next two decades, the PSADC had expanded its development programme almost three-fold, covering an area of 21,669 hectares (see Table 8.5.1). Except for oil palm and rubber, the PSADC's post-1980 agricultural development also

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<sup>44</sup>In general, Harun disagreed on the state's involvement as capitalist, as the government has no business to be in business (Harun, interview in October, 2002).

<sup>45</sup>See Section 6.5.

<sup>46</sup>Malaysia (1971a), p.7.

<sup>47</sup>See Table 6.5.2 in Section 6.5.

witnessed diversification into other commercial and agricultural activities. From only three subsidiary companies in the 1970s it had expanded to include six subsidiary companies and five associated companies (see Table 8.5.2). Although operating as capitalist, its contribution to the state economic policy through the *Ladang Rakyat* schemes in various parts of Perak was also evident. A new company would be incorporated once any agricultural projects under the PSADC had reached ‘maturity’, with 51% of the equity held by the PSADC and the remaining 49% distributed among selected shareholders, comprising below-poverty income earners, social welfare subsidy recipients, and low-ranking employees of the specific agricultural projects.<sup>48</sup> While this has been the practice of the PSADC for agricultural projects within the state, the same approach was not applicable to out-of-state projects that were solely undertaken for profit.<sup>49</sup> The capitalist character of the state, at least in the agricultural sub-sector, was rather muted in the sense that while seeking profits the benefits were also directly shared with the selected deserving recipients.

**Table 8.5.1 Perak: PSADC development hectarage, 1999**

Crop	Hectare	Crop	Hectare
Oil Palm	20,581	Pamelo	20
Rubber	460	Forestry	260
Herbs	64	Fruits	27
Tea	121	Aquaculture	136
		Total	21,669

Source: <http://www.perak.gov.my/english/government/sadc.html> (27/05/2005)

In the non-agricultural sector, the state-capitalist role was mainly undertaken by the PSDC.<sup>50</sup> For the post-1980 period, an internal study by the PSDC in 1989 indicated that it

<sup>48</sup><http://www.perak.gov.my/english/government/sadc.html> (27/05/2005)

<sup>49</sup>By 2000 all the projects undertaken by PSADC were within the state borders except for about 8,000 hectares of oil palm cultivation in Sumatra, Indonesia.

[<http://www.jphpk.gov.my/English/Jan%202001%2030.htm> (09/06/2005)]

<sup>50</sup>For the 1970s, see Section 6.5; The establishment of State Development Corporations in each state was the result of the resolution of the *Bumiputera* Economic Convention that also saw the establishment of Bank Bumiputera Malaysia Berhad and Majlis Amanah Rakyat.

**Table 8.5.2 Perak: PSADC companies 1999**

<b>Subsidiary companies</b>
Ladang Lekir Sendirian Berhad
Ladang Jalong Sendirian Berhad
Lenggong Tea Plantations Sendirian Berhad
Global Herba (Perak) Sdn Bhd
Perbadanan Perak Fimaly Plantation Sdn Bhd
Perak SADC Management Services Sdn Bhd
<b>Associated companies</b>
Koko Malaysia Sendirian Berhad
Perak Fruits and Development Corporation Sendirian Berhad
United International Enterprise Sdn Bhd
Dindings Soya & MultiFeeds Sdn Bhd
Dindings Poultry and Processing Sdn Bhd

Source: <http://www.perak.gov.my/english/government/sadc.html> (27/05/2005)

was involved in 80 enterprises in various sectors with a total capital investment of RM146.3 million (see Table 8.5.3).<sup>51</sup> While this figure shows an apparent increase in the number of enterprises under the PSDC compared to the 1971-1980 period,<sup>52</sup> there was a significant change in its sectoral involvement in the economy. Comparatively, the involvement of the PSDC enterprises in the construction and property development sectors had decreased from 10 to 1 and from 6 to 3 enterprises, respectively. The reduction does not necessarily mean that state involvement had significantly been reduced in these sectors as greater involvement can also be achieved by expanding operations or joint-ventures through these reduced numbers of enterprises. On the contrary, a substantial increase was observed in the manufacturing and logging sectors from 4 to 12 enterprises and from 21 to 48 enterprises, respectively.

The 1989 study too revealed that a large number of the enterprises under the capitalist arm of the state were performing poorly, which was mainly due to high financial costs,

<sup>51</sup>PSDC (1989). *Studies of Companies Under PKNP*, p.8 (unpub.).

<sup>52</sup>See Table 6.5.3 in Section 6.5.

operational problems, and poor marketing approaches.<sup>53</sup> Massive structural reorganizations took place during the year that saw a total of 48 enterprises being sold, including one being de-registered.<sup>54</sup> By the end of 1989 the PSDC had trimmed down its direct involvement to 32 enterprises – 5 wholly-owned, 6 subsidiaries, 14 associates, and 7 related enterprises and reduced its total capital investment to RM141.5 million (see Table 8.5.4). Table 8.5.4 also reveals that almost RM100 million (71%) of the total state capital investment was directed to manufacturing, RM16.6 million (12%) to the investment sector, RM16.0 (11%) million to mining, and RM7.3 million (5%) towards property development. Sectors comprising services, construction, tourism, logging and others each had less than 1% of the state capital investment. Although the sectoral distribution of capital investment conformed to the state strategy in developing manufacturing industrialisation as its economic mainstay, a shift in the approach can also be observed.

**Table 8.5.3 Perak: PSDC enterprises by sector, 1989**

Sector	No. of enterprise/s
Manufacturing	12
Management Services	1
Construction	1
Property Development	3
Investment	3
Mining	11
Tourism	1
Logging & others	48
Total	80

Source: Collated from PSDC (1989). *Studies of Companies Under PKNP*, p.8 (unpub.).

In the manufacturing sector, out of the eleven enterprises under the PSDC, seven were established in the pre-1980 period. This suggests that in the post-1980 period the PSDC

<sup>53</sup>PSDC (1989), p.2; The underperformances of state enterprises have been in existence for many years (Harun, interview on 23/10/2002).

<sup>54</sup>Ibid., p.13. Out of the 48 enterprises, 44 of these were from the logging sector, with 40 disposed under the 'Skim Perintis Pembalakan' (Logging Pioneering Scheme), 1 from manufacturing, and 3 from the mining sector.

**Table 8.5.4 Perak: PSDC companies 1989****Wholly-owned companies**

No.	Name of company	Year of incorporation	Industrial sector	Paid-up capital (RM)	Cost of investment (RM)	% held by PSDC
1	Batu Perak Sdn Bhd	1975	Manufacturing	377,002	377,002	100.0
2	Maju Kayu Sdn Bhd	1975	Manufacturing	1,700,000	850,000	100.0
3	Maju Timah Sdn Bhd	1975	Mining	250,002	250,002	100.0
4	Maju Kawal Sdn Bhd	1977	Services	200,004	100,002	100.0
5	Gelombang Perak Sdn Bhd	1975	Project Devt.	250,001	250,001	100.0

**Subsidiary companies (50-99%)**

No.	Name of company	Year of incorporation	Industrial sector	Paid-up capital (RM)	Cost of investment (RM)	% held by PSDC
6	Volex (M) Sdn Bhd	1980	Manufacturing	2,000,000	1,300,000	65.0
7	Perak Hanjoong Simen Sdn Bhd	1980	Manufacturing	149,570,000	89,741,997	60.0
8	Maju Bangun Sdn Bhd	1974	Construction	500,000	299,997	60.0
9	Gopeng Berhad	1983	Mining	7,975,768	3,530,652	50.0
10	Maju Penawat Sdn Bhd	1977	Mining	150,000	90,000	60.0
11	Sy. Kayu-Kayan Bersekutu Sdn Bhd	1976	Logging	10,000	60	60.0

**Associated Companies (20%-49%)**

No.	Name of company	Year of incorporation	Industrial sector	Paid-up capital (RM)	Cost of investment (RM)	% held by PSDC
12	Hilir Maju Sdn Bhd	1977	Mining	119,997	47,999	40.0
13	Perak Dredging Sdn Bhd	1976	Mining	3,200,000	960,000	30.0
14	Timah Dermawan Sdn Bhd	1975	Mining	14,208,000	4,262,400	30.0
15	Senggang Realty Sdn Bhd	1975	Mining	215,000	129,000	60.0
16	Rahman Hydraulic Sdn Bhd	1983	Mining	28,125,000	6,750,000	24.0
17	Elitewood Product (M) Sdn Bhd	n.a	Manufacturing	1,661,000	813,890	49.0
18	A.P.M Sdn Bhd	1978	Manufacturing	5,600,000	219,999	28.6
19	Zen Concrete Sdn Bhd	1975	Manufacturing	5,000,000	1,499,999	42.4
20	Mapa (Malaysia) Sdn Bhd	1981	Manufacturing	5,004,000	1,789,574	30.0
21	Pulai Jaya Sdn Bhd	1984	Property Devt.	500,000	150,000	30.0
22	Sy. Maju Perak Sdn Bhd	1976	Investment	1,000,000	343,275	34.3
23	Cash Complex Sdn Bhd	1985	Property Devt.	23,000,000	6,900,000	30.0
24	Sy. Permodalan dan Perusahaan Perak	1988	Investment	50,453,801	15,686,087	31.1
25	Rubber Metall-Technik (M) Sdn Bhd	1979	Manufacturing	5,300,000	2,454,000	46.0

**Related Companies (<20%)**

No.	Name of company	Year of incorporation	Industrial sector	Paid-up capital (RM)	Cost of investment (RM)	% held by PSDC
26	Permodalan Nasional Berhad	1969	Others	751,012,180	250,000	0.0
27	Sy. Gabungan Pembalok Perak Sdn Bhd	1984	Logging	n.a	1	0.0
28	Koko (M) Sdn Bhd	1987	Manufacturing	17,750,000	950,000	5.4
29	Oswar Plantations Sdn Bhd	1981	Investment	5,100,000	612,000	12.0
30	Sy. Pelancungan Pangkor Laut Sdn Bhd	1985	Tourism	6,512,300	651,000	10.0
31	Perinda Sdn Bhd	1975	Trading	2,000,000	250,000	12.5
32	Hume Industries Sdn Bhd	1961	Manufacturing	214,463,211	1,080	0.0

Source: Collated from Perak State Development Corporation (1989). *Studies of Companies Under PKNP*, pp.12-13 (unpub.)

had gradually moved away from direct involvement in manufacturing and instead extended its efforts into creating a better and more conducive environment for manufacturing industrialisation to flourish. This is evident from the commitment and attention given by the PSDC to the development of industrial estates presented in the preceding section. Another observation is the change in sectoral attention given by the PSDC in its capitalist role in the economy. Out of the twelve new enterprises established in the post-1980 period 42% were in the tertiary sector comprising management services,

investment, and tourism, indicating the state's effort to expand the economic contribution from these sectors.

In the development of state enterprises in Perak, another changing trend was also present in terms of ownership. The capitalisation of the enterprises incorporated by the PSDC in the 1970s comprised a mixture of wholly owned enterprises, as subsidiaries, associates, or related enterprises, suggesting that their ownership by the state can vary between total ownership or a modest equity. This trend did not seem to continue as those state enterprises incorporated in the post-1980 period consisted of commercial arrangements with a growing participation of and collaboration with private capitalists.

The 1980s had seen an increase in the number of state enterprises, however, later, towards the end of the decade, there was a reduction as well as diversification into various other sectors. The 1990s also saw an additional dimension in which privatisation of state enterprises had taken place, a development trend that we shall examine in the next section.

## **8.6 Privatisation of state agencies**

Privatisation is an economic development approach which is part of the federal government's programme of economic liberalisation and deregulation. It began to take place in Malaysia in the 1980s.<sup>55</sup> This approach was largely an attempt to counter the macroeconomic problems that the country was facing during that time, which came about

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<sup>55</sup>It officially started when the Prime Minister announced the 'Malaysia Incorporated' concept as a national policy in 1983.



as a result of the government's increased direct involvement in the economy,<sup>56</sup> particularly in executing NEP-related projects since 1970. Another factor that contributed to the problem was the global recession in the early 1980s that created growing public sector deficit and necessitated extensive domestic and external borrowings.<sup>57</sup> Basically government revenue could not keep pace with the expenditure, which, in turn, prompted the necessary change in policy.<sup>58</sup> The federal government's change in direction from public-sector-led to private-sector-finance in economic development required all the states in Malaysia to follow, and Perak was no exception. This section will examine the changes that took place in Perak as a result of this policy change.

As outlined by the federal government, the privatisation policy entails a number of major objectives:<sup>59</sup> first, to relieve the government from the undertaking and maintenance of a constantly expanding network of services and investment in infrastructure; second, to promote competition, improve efficiency and increase productivity; third, to stimulate private entrepreneurship and investment in order to accelerate economic growth; fourth, to reduce the size and presence of the public sector, along with its monopolistic tendencies and bureaucratic support of the economy; and fifth, to contribute towards meeting the objectives of the NEP.<sup>60</sup> Privatisation in the context of Malaysia is

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<sup>56</sup>The Malaysian public sector grew from 29% of GNP in the 1970 to 58% in 1991. [Yaacob et. al., 'Contracting for Private Provisions of Infrastructure: The Malaysian Experience' in Harinder Kohli et. al. (eds.) (1997). *Choices for Efficient Private Provision of Infrastructure in East Asia*, Washington D.C: The World Bank, p.43]

<sup>57</sup>Malaysia's external debt quadrupled between 1980 and 1985. [Ibid.; see also Tull, M. and Reveley, J. (2001). *Privatisation of Ports: A Malaysian Case Study*, Working Paper No.182, School of Economics, Murdoch University, January, p.11]

<sup>58</sup>This policy was initially guided by the *Guidelines on Privatisation* (EPU, Malaysia, 1985) and later strengthened by *Privatisation Masterplan* (Malaysia, 1991b).

<sup>59</sup>See EPU, Malaysia (1985). *Guidelines on Privatisation*, Kuala Lumpur: Prime Minister's Department.

<sup>60</sup>Apart from these objectives, Hamdan was also of the opinion that it was not the question of the success of privatisation programme that was the main issue but rather had the state awarded those projects to the right people and the level of Malay participation in it (Hamdan, interview in October, 2002).

multifaceted and is not limited to the simple sale of state enterprises alone, but also encompasses the privately financed development of new services and facilities. Although privatisation was first directed towards the provision of major infrastructure projects in the country such as highways and telecommunications, those in the construction, manufacturing, and transportation sectors then promptly followed. During the period of 1983 to September 1997 a total of 416 major projects were privatised in Malaysia.<sup>61</sup>

Privatisation which involves the contractual arrangement between the public and private sectors in Malaysia comprised at least one of the following methods: outright sale of state entities; corporatisation; management contract; build-operate-transfer (BOT); or build-operate-own-transfer (BOOT). In each of these privatisation methods, the contracts would either involve time-bound leasing, 20- to 30-year concessions, a combination of leasing and concessions, contracting out the management of state entities, or some kind of purchase agreements, as in the case of power-generation privatised projects.<sup>62</sup> Equally important is that privatised projects in Malaysia need not necessarily originate from the public sector; project proposals are also encouraged from the private sector, and in most cases the initiators were accorded exclusive rights in undertaking the projects once approved by the government.

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<sup>61</sup>Kasim b. Md Mansur (2000). 'The Role of Government in Economic Development: The Malaysian Experience', Ph.D Thesis, University of Wisconsin-Milwaukee, p.327. A contradiction appears in the total number of privatised projects as the list released by the Federal government during the 1998 United Malays National Organisation (UMNO) general assembly, as a response to accusations of political cronyism, only revealed 257 projects, see *The New Strait Times*, June 21 & 22, 1998.

<sup>62</sup>For some brief information on the working of these privatisation agreements, see Yaacob, Naidu and Lee, 'Malaysia: The Transition to Privatisation' in Ashoka Mody (ed.)(1997). *The Untold Story: Infrastructure Strategies In East Asia*, Washington D.C.: Economic Development Institute, The World Bank; Salleh, Ismail Muid, 'Privatization: The Malaysian Experience' in Hisashi Yokohama and Mokhtar Tamin (eds)(1991). *The Malaysian Economy in Transition*, Tokyo: Institute of Developing Economies.

With the new policy in place, the changes that took place in Perak came from two fronts;<sup>63</sup> the first comprised national privatisation projects and the second were projects sanctioned solely within the jurisdiction and primarily to the benefit of the state itself. Some of the general features for federal-approved privatisation projects are that the proposed development would also involve other states, such as highway projects or telecommunications, or major projects beyond the experience of the state such as port development, or specific development on land already alienated for the federal government such as the construction of federal government office complexes. As clearly stated in the main objectives, infrastructural development was at the forefront of the privatisation programmes where prior development was entirely financed by the public sector. Although the implementation of the policy effectively started in 1986, there were only three federal privatisation projects that involved Perak before 1990; the others were in the post-1990 period.<sup>64</sup> By 1998, at least 14 of the economic sub-sectors had been privatised, as shown in Table 8.6.1, along with the respective recipients of the projects; these, however, were limited to nationwide projects that have a direct impact on the state economy either through their activities or services, which in most cases were distributed very widely in Perak, such as those of the health services and utilities.

During the 1985-1998 period there were 11 state-specific projects approved by the federal government in Perak (see Table 8.6.2). Comparatively, the total number of projects was small and represents only about 3% of the total 416 privatised projects that

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<sup>63</sup>Privatisation programmes undertaken was the government's way of transferring entrepreneurial role back to the private sector (Ahmad, interview in October, 2002).

<sup>64</sup>The first was the North-South Expressway project, carried out to link Thailand in the north and Singapore in the south of Malaysia and passing through Perak, which was awarded in 1988, and the other two, specifically for the state, were the privatisation of Ipoh Water Supply and Larut Matang Water Supply schemes, both awarded in 1989.

**Table 8.6.1 Federal privatised projects in Perak, 1998**

Sub-sector	Recipient/s
Highway	PLUS Berhad
Telecommunications	Telekom Malaysia Berhad
Power	Tenaga Nasional Berhad
Railway	KTM Berhad
Airline	Malaysian Airline System Berhad
Airport services	Malaysian Airport Berhad
Postal services	Pos Malaysia Berhad
Sewerage services	Indah Water Consortium Sdn Bhd
Health services	Remedi Pharmaceutical Sdn Bhd
	Tongkah Medivest Sdn Bhd
	Fomema Sdn Bhd
Vehicle inspection	Puspakom Sdn Bhd
Urban development	UDA Holdings Berhad
Felcra	Felcra Berhad
Risda (commercial activities)	Koperasi Pekebun Kecil Getah Berhad
Waste disposal	Kualiti Alam Sdn Bhd

Sources: Collated from Naidu (1995) in Kasim b. Md Mansur (2000), Appendix C, p.403; Yaacob, Yahya, and Naidu (1997), Appendix Table, p.53; *The New Straits Times*, June 21 & 22, 1998.

**Table 8.6.2 Perak: Federal privatised projects, 1998**

Projects	Recipient/developer	District(s)
Ipoh Water Supply	Intan Utilities Berhad	Kinta
Larut Matang Water Supply	GSL Water Sdn Bhd	Larut Matang
Lumut Maritime Terminal	Lumut Maritime Terminal Sdn Bhd	Manjung
Segari Power Plant	Segari Energy Ventures Sdn Bhd	Manjung
Janamanjung Power Plant	TNB Janamanjung Sdn Bhd	Manjung
UDA Greentown Development	Faeiz Corporation Sdn Bhd	Kinta
Pasir Bogak Rest House	Exxa Sdn Bhd	Manjung
Ipoh Police Headquarters	TH Universal Sdn Bhd	Kinta
Ipoh-Lumut Highway	Silex Sdn Bhd	Kinta/ Perak Tengah/ Manjung
West Coast Highway	Konsortium LPB Sdn Bhd	Larut Matang/ Manjung/ Perak Tengah/Hilir Perak
Naval Dockyard	PSC-Naval Dockyard Sdn Bhd	Manjung

Sources: Collated from Naidu (1995) in Kasim b. Md Mansur (2000), Appendix C, p.403; Yahya, Yaacob, and Naidu (1997), Appendix Table, p.53; *The New Straits Times*, June 21 & 22, 1998; *The New Straits Times*, January 05, 1998

have been federal-approved nationwide.<sup>65</sup> Apart from the privatisation project in Larut Matang, which was the corporatisation of the state water supply division, and the two proposed privatised highways, which run across various districts, the other privatised projects were restricted only to the districts of Kinta and Manjung. Manjung secured a

<sup>65</sup>The percentage is about 4% if total privatised projects are taken as 257, see fn. 51.

port project and two power plants, major projects that potentially would benefit the district in employment generation and were also capable of creating significant economic multiplier effects.

Privatisation programmes were carried out at a much greater pace at the state level compared to those sanctioned by the federal government. These projects, comprising those initiated by the state as well as by private capitalists, were within the jurisdiction of the state authorities. One of the salient factors which explains the large number of privatised projects at state-level was that the key requirement in physical development activities (i.e. land availability) was under the purview of each individual state.<sup>66</sup> With this advantage there were two ways in which privatised project development in the state was carried out. First, outright privatisation i.e. where project development approval would be granted by the state and then the whole project executed by private capitalists for which all the necessary related costs and land premiums were paid to the state government; and second, where the execution of approved privatised projects involved the state government, through its agencies, as a joint-venture partner for which state land in certain cases, became the share contribution in the partnership scheme. Although direct state participation, apart from granting project approval, in a logical sense, should not constitute real 'privatisation', these projects, however, were still regarded as part of the privatisation programme by the state. By 1998 there were 55 projects carried out under this programme encompassing the various sectors of industrial, mixed, and

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<sup>66</sup>However, Hamdan was of the opinion that land approvals for economic development purposes was not fast enough and represented a major stumbling block among entrepreneurs (Hamdan, interview in October, 2002).

**Table 8.6.3 Perak: State privatised projects by sector, 1998**

Sector	Project	Recipient/Developer	District
Industrial development	Bandar Proton Sungai Perangin Industrial Zone Bidor Industrial Township Tambun Industrial Zone Tungxen Industrial Zone Kuala Kangsar SMI Industrial Zone Seri Iskandar Technology Park Kampung Acheh Industrial Zone Manjung SMI Zone Marine Construction and Services Kamunting III Industrial Zone Bagan Serai Housing and Industrial Development Dennistown Industrial Zone Lembah Beriah Industrial Zone	Proton City Dev. Corp. Sdn Bhd Bernam Industrial Estate Sdn Bhd Trisilco Perak Development Sdn Bhd PYP Sdn Bhd Tungxen Development Sdn Bhd MIEL Sdn Bhd Palmshine Development Sdn Bhd Lumut Maritime Terminal Syarikat Kar Sin Dev. Sdn Bhd Penang Shipbuilding & Const. Sdn Bhd Paku Rimba Sdn Bhd Golden Hope Development Sdn Bhd  Constant Skyline Sdn Bhd EMKAY Sdn Bhd	Batang Padang Batang Padang Batang Padang Kinta Kinta Kuala Kangsar Perak Tengah Manjung Manjung Manjung Larut Matang Kerian  Kerian Kerian
Mixed development	Diamond Creeks Country Resort Behrang New Township Tapah New Township Sungai Samak Housing Estate Greentown New Township Tronoh Water Sports Complex Kinta Highland Development Tasik Perdana Town Centre Seri Iskandar Township Bagan Datoah Coastal Development Taiping Villa Development Bukit Merah Housing Development Desa Manjung Raya Lekir Coastal Development Project Housing Project Kampar New Township Lumut Park Taman Seri Raia Housing Project Housing Project Setia Putera New Township Housing Project II Alor Bakung Integrated Development	Golden Approach Sdn Bhd Behrang Properties Sdn Bhd Permodalan Perak Berhad Samak Bestari Sdn Bhd IZIN Development Sdn Bhd Lembayung Sukma Sdn Bhd Rimba Raya Sdn Bhd Syarikat Maju Perak Berhad SIDEK Sdn Bhd Innovest Sdn Bhd Taiping Villa Development Sdn Bhd Segi Objektif (M) Sdn Bhd Ali Bagas Dev. (Perak) Sdn Bhd Desa Kilat Sdn Bhd Constant Skyline Sdn Bhd Syarikat Batu Sinar Sdn Bhd Lumut Park Resort Gopeng Berhad Kris Properties Sdn Bhd Arab Malaysian Corporation Bhd Semi Sensasi Sdn Bhd Arab Malaysian Corporation Bhd Syarikat Maju Perak Bhd	Batang Padang Batang Padang Batang Padang Batang Padang Kinta Kinta Kinta Kinta Kinta Perak Tengah Hilir Perak Larut Matang Kerian Manjung Manjung Kerian Kinta Manjung Kinta Kinta Larut Matang Kuala Kangsar Larut Matang Hilir Perak
Commercial development	Medan Gopeng Commercial Complex Tapak Ekspo - Galari Ipoh Ipoh Metro Township Ipoh Pulau Township Teluk Intan New Township Lot 1160 Taiping Cyber Town, Ipoh Commercial Centre	Megoplex Medan Gopeng Silvertage Galleria/PKNP Intan Payung Sdn Bhd Golden Dragon Sdn Bhd Bukit Mewah Development Sdn Bhd Bakti Wangi Sdn Bhd / MPT Cyberland Sdn Bhd Chin Development Sdn Bhd	Kinta Kinta Kinta Kinta Hilir Perak Larut Matang Kinta Kinta
Tourism	Pulau Pangkor Redevelopment Project Sunway City Gua Tempurung Development Project Tasek Chenderoh Development Project Lumut Waterfront Damai Laut Country Resort Golf Resort Golf Resort	Seri Koleksi Sdn Bhd Kinta Valley Resort / Bandar Sunway Heritage Acres Sdn Bhd Land & General Mustika Resort Sdn Bhd Damai Laut Resort Sdn Bhd Clear Water Sanctuary Golf Sdn Bhd Data Elegance Sdn Bhd	Manjung Kinta Kinta Hulu Perak Manjung Manjung Kinta Hulu Perak
Special projects	Asean Medical College Institut Teknologi Petronas	Suci Teguh Holdings Sdn Bhd Petronas Property Mgt Serv. Sdn Bhd	Kinta Perak Tengah

Source: Collated from EPU, Perak (1999a). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan 1998*, Ipoh, pp.90-7

commercial development, tourism, and special projects (see Table 8.6.3 above).<sup>67</sup> Together with federal-approved projects mentioned earlier there were a total of 66 Perak-specific privatised projects.

The demographic distribution of the state-level privatisation projects does not show any significant spatial shift in the development trends (see Table 8.6.4). Kinta remained the most important district where the concentration of 19 privatised projects was approved. Manjung made considerable progress in attracting privatised projects; not only did the district manage to attract 9 privatised projects in various economic sectors, it was also the largest recipient of the federal-approved privatised projects. For Batang Padang, although it received only 7 privatised projects up to 1998, which were limited to the industrial and mixed development sectors, the proposed privatised development of Bandar Proton (Proton City), a new automotive hub for the country, was expected to create huge economic spin-offs for the district and the adjacent state of Selangor. The other districts managed to attract between 2 to 5 proposed privatised projects during the period.

**Table 8.6.4 Perak: Approved privatised projects by district up to 1998**

District	Projects	RM million	District	Projects	RM million
Kinta	19	6,865	Larut Matang	5	556
Batang Padang	7	14,804	Kerian	5	2,565
Kuala Kangsar	2	892	Hulu Perak	2	641
Perak Tengah	3	10,000	Hilir Perak	3	20,131
Manjung	9	7,901	Total	55	64,355

Sources: Tables 8.6.2 & 8.6.3; EPU, Perak (1999a). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan 1998*, Ipoh, pp.90-7.

Table 8.6.4 also shows that the approved state-level privatised projects in Perak were expected to generate RM64.355 billion of investment. The distribution of these projects in terms of value was in the reverse order i.e. districts with a small number of privatised

<sup>67</sup>The list is limited to those projects in excess of RM1 million each.

projects approved received the highest amount of investment, such as Perak Tengah and Hilir Perak. The total investment figure seems, on the surface, to have been a tremendous achievement for the state privatisation programme; however, the reality was not as promising. Looking back at the approved privatised projects in Perak, as listed in both Tables 8.6.2 and 8.6.3, a number of project failures can be observed by 2000,<sup>68</sup> some of the major ones as listed in Table 8.6.5 below. The failure of these projects was principally a result of the Asian financial crisis in 1997, the inability of the project recipients to raise sufficient funds, or in some cases, objections from landowners against acquiring their land for these projects. Even as of 2006, the two highway projects, for example, have not materialised;<sup>69</sup> Tronoh Water Sports Complex was scaled down considerably, the Kinta Highland Development, a 400-hectare highland agricultural scheme, has not seen much progress, and the remainder of the projects only saw either a delayed or scaled down implementation. When the failed projects are taken into consideration in assessing the achievement of the privatisation programme in Perak as a whole in the pre-2000 period, state-level privatisation at best only achieved less than 40% of the intended plan in terms of investment.<sup>70</sup>

**Table 8.6.5 Perak: Failed privatised projects, 2000**

Project	RM million	Project	RM million
Ipoh-Lumut Highway	1,200	Seri Iskandar Township	9,000
West Coast Highway	3,000	Bagan Datoh Coastal Development	20,000
Tapah New Township	1,400	Setia Putera New Township	780
Tronoh Water Sports Complex	1,000	Sunway City	830
Kinta Highland Development	2,500	Gua Tempurung Dev. Project	500
		Total	40,210

Source: Figures from EPU, Perak (1999a). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan 1998*, Ipoh, pp.90-7.

<sup>68</sup>Project failures denote projects that either did not take-off at all, were delayed, or later scaled-down in their implementation.

<sup>69</sup>The failure to construct the Ipoh-Lumut highway was due to the focus of the concession owner on projects located somewhere else and not in Perak (Hamdan, interview in October, 2002).

<sup>70</sup>Calculated from Tables 8.6.4 and 8.6.5.



When the federal and other state governments were actively downsizing the public sector, as one of the objectives under the privatisation programme, Perak did not achieve significant success. Up to the year 2000, except for the privatisation of the state's two water supply departments mentioned earlier, the privatisation of only four state enterprises, which comprised Gopeng Berhad, Perak Hanjoong Simen Sdn Bhd, Zen Concrete Sdn Bhd, and Anakku Corporation Berhad, by any account, had no impact in reducing the size of the state public sector because all along they were run like private organisations.<sup>71</sup> A more reliable explanation, at least for the first three state enterprises, is that they were privatised via the direct transfer of assets in the attempt by the state to increase *bumiputera* participation in the commercial sector, as advocated under the NEP. The privatisation of these companies resulted in the state losing its 'anchor cash cow' companies, which were principal organisations in their respective business sectors in the state.<sup>72</sup> Ironically, these enterprises were transferred to a single recipient, which, in a way, defeated the capacity-building intentions of *bumiputera* participation in the economy. The privatisation of the fourth enterprise was strictly a commercial decision by the PSDC to reorganise its portfolios.<sup>73</sup> For other state enterprises in Perak, their non-privatisation was mainly due to their poor performances which failed to attract private capitalists or, in some cases, due to political reasons such as the failed attempt to privatise the whole state agriculture arm, the PSADC, in the early 1990s.

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<sup>71</sup>For the state's share in these companies, see Table 8.5.4 in Section 8.5.

<sup>72</sup>Gopeng Berhad had extensive land bank reserve and later ventured into infrastructure development and construction; Perak Hanjoong Simen Sdn Bhd and Zen Concrete Sdn Bhd were the main producers for cement and cement-related products respectively.

<sup>73</sup>The state's involvement in Anakku Corporation Berhad, a company that specialises in baby products, started in the early 1990s.

Privatisation in Perak had created an important shift in the respective roles of the public and private sectors in the economy. The partnership in the public-private sectors, as a result of the privatisation programme, can be shown to have benefited the state development programmes overall. This is because provision of infrastructure and facilities had been accelerated, coverage of services extended, and, for the state government, the ability to leverage its resources, particularly from the fiscal point of view, was increased. But this programme had its flaws too, particularly in meeting all the five objectives of the privatisation programme, as mentioned earlier in this section. The most conspicuous was the failure to reduce the size and presence of the state public sector, although its monopolistic tendencies and bureaucratic support were evidently decreasing if one takes into account the fact that the overall number of privatised projects being implemented had declined. The achievement of privatisation in contributing towards meeting the NEP objectives, however, cannot be deemed a total success.<sup>74</sup> On the one hand, it had managed to create a new breed of entrepreneurs, as evidenced by the good mix of project recipients, mainly *bumiputera*, in state privatisation programmes; but on the other hand the privatisation of state enterprises to the *bumiputera* community, as originally planned in the NEP, was insignificant. However, it was privatisation that played an important part in invigorating the economic environment that further attracted new investment into the state, which will be examined in the next section.

## 8.7 Investment in the 'new' economy

In 1980, Perak was one of the four west coast states, including Selangor, Johor and Penang that contributed more than 80% of Malaysia's manufacturing output, despite

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<sup>74</sup>Conceptually, privatisation is acknowledged being a good approach, however, the implementation had been poor (Hamdan, interview in October, 2002).

having a total population aggregate of only 43%.<sup>75</sup> The contribution from Perak was made possible by the active government policy of providing the necessary infrastructure. Further emphasis was evident when from 1981 to 2000 the public sector spent a total of RM11.4 billion in developing Perak, including RM6.3 billion (55.1%) in the economic sector, while the social, security, and state administrative sectors each spent RM3.2 billion (27.9%), RM1.5 billion (13.3%), and RM0.4 billion (3.7%) respectively.<sup>76</sup> Slightly more than half of the state budget had been channelled towards economic development in this 20-year period. Although the development of industrial estates and the privatisation of projects had assisted the acceleration of Perak's economic development, it was also made possible and intensified by the availability of both private internal and external funds. This section focuses on the development of private investment, both internal and external, in the industrial sector (the 'new' economy) in Perak during the 1980 to 2000 period.

The momentum created towards manufacturing industrialisation in Perak before 1980, and in particular during the 1976 to 1980 period as presented in section 6.8, and the aggressive industrial infrastructure development, especially industrial estates, had created an appealing environment for investment in the industrial sector, apart from the financial incentives offered by both state and federal governments and the relatively cheap labour available then. This can be shown during the period 1976 to 1980, in which the average number of industrial projects approved was about 35 a year,<sup>77</sup> but increased to about 47 projects annually during the 1980 to 2000 period (see Table 8.7.1). Since these are

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<sup>75</sup>Hamilton (1990), p.13.

<sup>76</sup>Calculated from Table 8.3.1 in Section 8.3.

<sup>77</sup>Calculated from Table 6.8.5 in Section 6.8.

averages, there were instances where the annual changes were large. The most obvious change was in 1987, when the number of approved industrial projects plummeted to only 12, the second lowest number not only during the period under discussion but since 1970.<sup>78</sup> In fact, the start of the decline can be traced back to 1985 when the world

**Table 8.7.1 Perak: Approved industrial project investment 1980-2000**  
(in RM million)

Year	Total number of projects	Equity			Total Equity	Total Loans	Total Investments
		<i>Bumiputera</i>	<i>Non-bumiputera</i>	Foreign			
1980	34	16.1	26.0	14.8	57.0	86.7	143.7
1981	46	87.4	98.7	56.5	242.5	512.6	755.1
1982	32	12.3	24.4	6.8	43.5	58.4	101.9
1983	33	15.1	12.2	7.3	34.6	52.0	86.5
1984	62	54.2	63.5	20.5	138.2	224.2	362.3
1985	46	30.2	29.7	24.5	84.4	142.6	227.0
1986	32	31.1	25.4	17.2	73.7	82.9	156.5
1987	12	1.0	7.9	7.4	16.3	17.2	33.5
1988	43	11.6	54.9	46.1	112.6	102.6	215.2
1989	37	7.5	33.6	67.4	108.4	186.7	295.1
1990	68	52.5	55.1	264.1	371.6	505.7	877.3
1991	74	472.4	313.8	541.6	1,327.8	2,678.1	4,006.0
1992	50	121.1	24.8	859.7	1,005.6	3,388.2	4,393.8
1993	44	55.2	72.4	77.9	205.5	783.9	989.4
1994	57	38.9	64.9	78.2	182.0	272.6	454.5
1995	65	123.3	122.2	135.9	381.4	514.1	895.5
1996	43	41.7	59.9	46.9	148.5	646.6	795.1
1997	50	28.1	86.2	85.0	199.3	384.9	584.2
1998	52	51.4	78.4	78.8	208.5	302.4	511.0
1999	56	43.9	38.9	31.4	114.2	1,178.0	1,292.3
2000	57	388.6	690.5	529.3	1,608.4	1,450.1	3,058.5
Total	993	1,683.3	1,983.4	2,997.2	6,663.9	13,570.6	20,234.5

Source: Collated from PSDC (2002b). *Sistem Maklumat Kelulusan Projek MIDA, Laporan Statistik Kelulusan Projek Mengikut Tahun*, p.20 (unpub.).

Note: Slight variation in figures exists due to rounding up from the original source.

economy was beginning to decelerate and reached its lowest point in 1987 before rebounding; the influence it had on industrial investment is clearly demonstrated in Perak. However, improvement and subsequent development in the Malaysian economy

<sup>78</sup>The lowest was 17 in 1971, see Table 6.8.4 in Section 6.8.

saw a continuous growth when industrial investment projects approved in Perak reached their height in 1991 with 74 projects. In contrary to the situation in 1987, the 1997 regional financial crisis in Asia which resulted in Malaysia enforcing capital control on foreign investors and currency-pegging did not seem to have lessened the interest in industrial investment in the state;<sup>79</sup> the number of industrial projects submitted and approved hovered in the 50s during this trying economic period, demonstrating the continuing interest of investors.

While the number of approved projects provides us with some kind of measurement of the progress in industrial project investment, the other equally relevant measure is the average volume of investment. Comparatively, during the 1971-1980 period average industrial investment in Perak was about RM151 million a year;<sup>80</sup> but the average figure based on approved industrial investment during the 1980 to 2000 period stood at about RM964 million a year, more than a six-fold increase per year compared to the pre-1980s. While the average number of projects approved had only increased by about 30% per year in the post-1980 period as compared to the previous period, the large increase in total investment in the latter clearly indicates that there was a shift in the industrialisation focus to capital- and technology-intensive against labour-intensive activities.

Another observation is that out of the total approved industrial investment in the final two decades, RM3,254.1 million (16%) were approved in the 1980s and RM16,980.3 million (84%) were approved in the 1990s. The 1980s therefore can be seen to be the transition period when capital- and technology-intensive industrialisation, as mentioned above,

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<sup>79</sup>In 2000 capital control on outgoing foreign funds and currency-pegging were still in operation in Malaysia.

<sup>80</sup>Calculated from Table 6.8.4 in Section 6.8.

began to take place in Perak. The decade of the 1990s was also when the NDP was in operation which saw more emphasis given towards industrialisation throughout the whole nation. Privatisation, as discussed in the preceding section, was also an important factor which helps explain the large increase in the 1990s.

The tremendous increase in the volume of industrial investment in Perak, however, did not result in a drastic change in terms of percentage distribution in total equity participation from both local and foreign investors. The 58% local and 42% foreign equity in the pre-1980 period<sup>81</sup> had only changed slightly in the 1980 to 2000 period when local equity participation had decreased to 55% and a reciprocal increase in foreign participation to 45%.<sup>82</sup> The percentage ratio of the local-foreign equity participation shows that both played an almost equally important role in contributing towards the success of industrial investment in Perak; and within the local investment sector the participation from the *bumiputera* community represented about 25% while the non-*bumiputera* about 30% of investment equity.

The positive changes in the increased number of approved projects and investment values in the post-1980 period in Perak were also accompanied by the shift in the character of industrial development. By number of approved industrial projects the food-manufacturing industry, which was the most popular industry in the pre-1980s,<sup>83</sup> had lost its lead and was only the fifth most important industry in the 1980 to 2000 period (see Table 8.7.2); it was replaced by the electrical and electronics industry which became the

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<sup>81</sup>Calculated from Table 6.8.5 in Section 6.8.

<sup>82</sup>Calculated from Table 8.7.1.

<sup>83</sup>See Table 6.8.3 in Section 6.8. Direct comparison with the pre-1980 period in all industrial sectors is not possible since the mode of categorisation of industries was not the same.

largest sector in Perak, involving 161 projects, followed by industries producing non-metallic mineral products (129 projects), rubber products (102 projects), and textiles (98 projects). Comparing the industries by the amount of total investment, the petroleum-based industry emerged as the largest with RM4.06 billion in total investment, followed closely by electrical and electronics (RM3.96 billion) and the non-metallic product industry (RM3.92 billion). The textile industry, which had been an important economic contributor in the 1970s, continued its presence in the 1980s and 1990s with about RM1.4 billion of approved investment. The large investment also signifies the move to high technology production. The remaining industries, although smaller in approved numbers and amount of investment, remained as important economic contributors, partly for the revenue and partly for their contribution to a broad and diversified industrial base.

Table 8.7.2 also reveals that there seems to be some modest variation in the industrial focus in terms of equity participation among the investor groups over the 1980 to 2000 period. Foreign equity participation was largest in the petroleum-related industry followed by the electrical and electronics industry. The *bumiputera* equities were more heavily invested in the non-metallic mineral industry followed by the electrical and electronics industries, while non-*bumiputera* involvement was in the reverse order to that of the *bumiputera*. If the level of technology involved is attached to these three most important industries, then within them the general assertion would be that foreign equity participation was largely focused on high-technology industries, the non-*bumiputera* on medium-level and the *bumiputera* involvement more heavily concentrated on lower-level technology industries.

**Table 8.7.2 Perak: Industrial project investment by industry and equity, 1980-2000  
(RM million)**

Industry	Number of projects	Equity			Total loans	Total investment
		Bumiputera	Non-bumiputera	Foreign		
Food	74	44.8	66.0	57.5	323.9	492.3
Beverages and tobacco	15	43.4	27.5	55.3	114.3	240.5
Textiles	98	21.4	36.2	163.6	1,168.4	1,389.6
Leather	9	0.2	3.9	9.1	10.6	23.8
Wood	30	63.8	88.0	32.6	344.3	528.8
Furniture & Fixtures	22	4.1	27.9	19.4	66.8	118.2
Paper, printing & pub.	35	57.5	67.6	73.5	344.8	543.3
Chemical	52	40.6	56.3	66.7	235.7	399.3
Petroleum refineries/prod.	4	0.9	2.2	810.0	3,242.2	4,055.3
Rubber products	102	69.9	125.0	87.6	489.4	772.0
Plastic	65	33.9	39.7	27.9	188.7	290.1
Non-metallic mineral prod.	129	474.5	352.0	407.3	2,686.3	3,920.1
Basic metal	39	211.6	250.0	251.6	1,712.6	2,425.7
Fabricated metal products	35	16.2	33.5	34.4	105.9	190.1
Machinery	33	15.5	22.6	98.9	164.6	301.6
Electrical & electronics	161	434.9	744.6	741.7	2,039.9	3,961.1
Transport equipment	57	147.2	29.7	18.7	269.1	464.6
Scientific equipment	5	0.6	1.7	5.2	8.7	16.2
Others	28	2.0	9.2	36.3	54.3	101.8
<b>Total</b>	<b>993</b>	<b>1,683.3</b>	<b>1,983.4</b>	<b>2,997.2</b>	<b>13,570.6</b>	<b>20,234.5</b>

Source: PSDC (2002b). *Sistem Maklumat Kelulusan Projek MIDA, Laporan Statistik Mengikut Jenis Industri*, p.16b (unpub.).

Note: Slight variation in figures exists due to rounding up from the original source.

In foreign direct investment during the period, the total contribution stood at RM10.18 billion, which represents 50.3% of the total approved investment of RM20.23 billion in Perak (see Tables 8.7.2 and 8.7.3). European countries contributed about 47% of the foreign direct investment, Asia 42%, and the balance of 11% comprised countries from other continents. Europeans and Asians represent the most important investor groups for the state during the period. By individual country, in terms of number of projects approved during the period, Taiwan (138 projects) was the largest investor followed by Japan (102 projects), Singapore (72 projects), and Hong Kong (55 projects); and in terms of total investment France was the largest single investor with RM4.08 billions worth of



**Table 8.7.3 Perak: Foreign investment 1980-2000 by country  
(in RM million)**

Country	Number of projects	Total equity	Overseas loans	Total investment
Africa (South)	1	2.0	7.2	9.2
Asean Countries	1	0.1	0.1	0.2
Australia	16	15.7	17.5	33.3
Belgium	1	1.6	0.8	2.4
Canada	8	24.6	111.4	136.0
China	8	9.7	5.9	15.7
Denmark	5	55.8	133.7	189.4
Finland	1	1.5	1.0	2.5
France	10	819.9	3,258.9	4,078.8
Germany (West)	13	20.4	52.7	73.1
Greece	1	1.2	0.9	2.1
Hong Kong	55	163.3	210.3	373.6
Indonesia	6	41.2	31.7	72.9
India	11	9.0	28.2	37.2
Italy	3	18.1	5.0	23.1
Japan	102	399.8	1,031.9	1,431.7
Korea (South)	17	128.6	679.5	808.1
Netherlands	2	6.9	3.3	10.2
Norway	4	5.3	11.4	16.7
Philippines	3	1.1	3.3	4.5
Pakistan	1	15.0	30.7	45.7
Singapore	72	456.8	298.4	755.2
Sri Lanka	2	0.3	1.5	1.8
Slovenia	1	2.3	0.0	2.3
Sweden	5	9.6	17.2	26.8
Switzerland	6	70.9	70.6	141.5
Thailand	4	16.7	0.9	17.6
Taiwan	138	328.3	332.9	661.2
United Arab Emirates	1	8.7	10.2	18.9
United Kingdom	31	59.9	101.5	161.3
USA	30	106.0	143.2	249.3
Virgin Islands	2	4.5	7.3	11.8
Yugoslavia	1	0.6	1.4	2.0
Others	37	134.9	456.0	590.9
Unknown	55	56.7	112.2	168.9
<b>Total</b>		<b>2,997.2</b>	<b>7,178.8</b>	<b>10,175.9</b>

Source: Collated from PSDC (2002c). *Sistem Maklumat Kelulusan Projek MIDA, Ringkasan Maklumat Pelaburan Asing*, p.19b (unpub.).

Note: Slight variation in figures exists due to rounding up from the original source.

investment, then followed by Japan (RM1.43 billion), South Korea (RM0.81 billion), and Singapore (RM0.76 billion). The approved project investment for French investors alone accounted for 40.1% of the total foreign direct investment in Perak during the period.

In promoting the 'new' economy in the state, Perak requires both a large number of projects and a large total investment. In the case of France, for example, the high total investment, with only ten approved projects, suggest that these were generally large in nature utilising high-technology production processes. On the other hand, a large number of projects are also important; for example, Taiwan was not only the highest investor in high-technology industries but it also implemented a large number of projects offering significant employment opportunities for the Perak work force.<sup>84</sup>

A further comment can also be made on the ownership status of these approved projects (see Table 8.7.4). From the total of 993 projects, joint-ownership comprising local investors, *bumiputera* and non-*bumiputera* accounted for 242 projects (24.4%), followed by those involving joint-ownership between local (*bumiputera* and non-*bumiputera*) and foreign investors totalling 220 projects (22.1%), and then projects solely funded by foreign investors totalling 188 (18.9%). Based on the number of approved projects wholly owned by individual investor groups, non-Malaysians comprised the largest investor group (188 projects), followed by non-*bumiputera* (131 projects) and *bumiputera* (26 projects).

A similar trend could also be detected with regard to equity ownership of approved industrial projects by individual investor groups. The largest investor group also comprised foreigners (RM1.66 billion); it was followed by *bumiputera* (RM175.5 million) and then non-*bumiputera* (RM138.5 million). Among the local investors, when

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<sup>84</sup>See Section 8.10 for the shift in labour patterns during the 1980 to 2000 period.

**Table 8.7.4 Perak: Industrial projects ownership status, 1980-2000  
(RM million)**

Number of projects	Equity			Total loans	Total investment
	<i>Bumiputera</i>	<i>Non-bumiputera</i>	Foreign		
26	175.5	0	0	88.2	263.8
131	0	138.5	0	299.1	437.6
188	0	0	1,655.2	4,679.1	6,334.3
242	328.9	486.1	0	1,679.8	2,494.8
64	264.6	0.07*	158.6	1,227.3	1,650.6
107	4.9*	110.3	199.5	353.0	667.7
220	909.4	1,248.5	983.9	5,173.6	8,315.3
15	0	0	0	70.4	70.4
993	1,683.3	1,983.4	2,997.2	13,570.6	20,234.5

Source: PSDC (2002d). *Sistem Maklumat Kelulusan Projek MIDA, Laporan Statistik Mengikut Status Pemilikan*, p.15b (unpub.).

Note: Slight variation in figures exists due to rounding up from the original source.

\* Due to the minute equity shares of the respective investor group in these projects, the source had categorised the ownership status as *bumiputera* and foreign, and non-*bumiputera* and foreign.

comparing both the number of approved industrial projects solely for the individual investor group and the amount of equity investment, it demonstrates that *bumiputera* investors had a much higher average equity investment per project (RM6.8 million) against the non-*bumiputera* (RM1.1 million). While the majority of the non-*bumiputera* equity investments were most likely from individual investors, it is, however, uncertain where the investment for the *bumiputera* group originated although it seems that a large part would come from institutional investors, such as state and federal agencies, investing on behalf of the *bumiputera* community.<sup>85</sup> Table 8.7.4 also reveals that the *bumiputera*-foreign partnerships represented a much larger share in total investment (RM1.7 billion) compared to the non-*bumiputera*-foreign partnerships (RM0.7 billion), although the latter had significantly more in the number of approved projects (107 projects), compared to the former (64 projects). These comparative figures point to at least two developments: first, that the nature of projects in the *bumiputera*-foreign partnerships were of large scale, capital-intensive, and involved high-technology processes; and second, it confirms the active participation of government-linked institutional investors as a proxy for the

<sup>85</sup>No further detailed breakdown of the *bumiputera* and non-*bumiputera* investment is available.

*bumiputera* as the capacity to do so by most of the individual *bumiputera* investors<sup>86</sup> was known to be limited during the period.

The interest shown by both local and foreign investors in Perak's industrialisation has been demonstrated in the number of approved projects and the respective total investment proposed. These projects, upon realisation, should increase the economic performance of the state, particularly in improving revenue generation and creating new employment opportunities. The growing population from 1.74 million people in 1980 to 2.13 million in 2000<sup>87</sup> clearly requires new jobs to cater for new entrants into the labour market.<sup>88</sup> This is apart from jobs needed for laid-off employees as a result of the closing down or downsizing of manufacturing operations in certain industrial companies. On the revenue side, the availability of these projects had improved the income of the state substantially. Excluding federal grants, the annual average revenue for Perak had increased from RM74.0 million in the 1970-1979 period to RM221.7 million during the 1980-2000 period.<sup>89</sup> However, despite all the successes presented, the actual achievement of the state up to 2000 shows a much lower attainment, a matter that is often not publicised by state administrators and politicians.

As shown in Table 8.7.5 below, as of the year 2000, out of the total 993 approved industrial projects in Perak, only 581 (58.5%) were actually operating commercially. If the projects under production trial-run, machinery assembly, and site acquisition were

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<sup>86</sup>Hamdan, however, emphasised that raising capital was not an issue for the individual *bumiputera* investors but rather what to do with those capital (Hamdan, interview in October, 2002).

<sup>87</sup>See Table 8.2.2 in Section 8.2.

<sup>88</sup>See Section 8.10 for the changing labour pattern in the post-1980 period.

<sup>89</sup>Calculated from Figure 8.9.1 in Section 8.9 and Appendix 4.

**Table 8.7.5 Perak: Industrial project status and investment, 1980-2000 (RM millions)**

Project status	Number of project/s	Equity			Total loans	Total investment
		<i>Bumiputera</i>	<i>Non-bumiputera</i>	Foreign		
Commercial production	581	925.3	1,115.4	1,222.4	4,236.7	7,499.8
Production trial run	15	8.6	5.7	3.3	53.3	70.8
Machinery assembly	21	8.8	26.1	39.1	344.7	418.6
Site acquisition	16	180.0	196.1	206.3	1,674.1	2,256.4
Planning stage	155	214.6	250.8	316.0	2,101.5	2,882.9
On temporary hold	28	41.4	71.4	60.6	283.8	457.2
Takeover by others	1	0.3	0.2	0.0	0.5	1.0
License revoked	71	92.4	99.1	922.8	3,777.6	4,891.9
No progress	18	16.4	14.5	27.6	108.7	167.2
Shutdown/closed	38	78.9	91.1	97.4	532.9	800.2
Dissolved/abandoned	49	116.9	113.0	101.8	456.9	788.6
<b>Total</b>	<b>993</b>	<b>1,683.3</b>	<b>1,983.4</b>	<b>2,997.2</b>	<b>13,570.6</b>	<b>20,234.5</b>

Source: PSDC (2002e). *Sistem Maklumat Kelulusan Projek MIDA, Laporan Statistik Projek & Pelaburan*, p.21b (unpub.).

Note: Slight variation in figures exists due to rounding up from the original source.

categorised as ‘active’ projects, then it can be construed that in 2000 only a total of 633 projects (63.8%) had been implemented in Perak. Out of the remaining 360 projects (36.2%), a total of 273 (27.5%) comprised those projects still in the planning stage, on temporary hold, as taken over by others, as having their license revoked, or as making no progress at all; in addition 38 (3.8%) projects that were in commercial production had ceased operations largely due to financial difficulties and competition; and a total of 49 (4.9%) of the projects had been dissolved or abandoned due to various reasons.

When based on ‘active’ projects as expressed above, the total investment in Perak during the 1980 to 2000 period stands at RM10.25 billion, representing only about half (50.7%) of the expected total investment of RM20.23 billion. In equity investment, the *bumiputera* and *non-bumiputera* each had only invested about two-thirds of their intended investment<sup>90</sup> while the foreign investors only 49.1% of the approved equity investment. Taking into account that on average 47.1% of the total loan during the 1980

<sup>90</sup>The *bumiputera* and *non-bumiputera* equity investment stood at 66.7% and 67.7% respectively.

to 2000 period was from local origins,<sup>91</sup> foreign loans utilised for implemented industrial projects stood at about RM3.34 billion; and together with foreign equity of RM1.47 billion the total for foreign direct investment in Perak for the 1980 to 2000 period actually stood at about RM4.81 billion, less than half (47.3%) of the proposed industrial investment of RM10.18 billion.<sup>92</sup> For local investors, the actual investment only totalled RM5.44 billion, slightly more than half (54.1%) of the proposed industrial investment of RM10.06 billion.

Therefore, during the 1980 to 2000 period, Perak had been reasonably successful in transforming its economic base to the 'new' economy, as shown by the large increase in state revenues. Initiatives undertaken by the state had seen a commendable growth in industrial investment. But despite these successes, almost half (49.3% or RM9.98 billion) of the approved industrial project investment had not taken off as planned. The growth of industrial investment in Perak during the period also shows the reliance of the state on foreign direct investment because local capital was insufficient to support extensive growth. Based on this trend, future industrial growth for Perak inevitably has to rely on the capability of the state to attract more foreign investment. Within the sphere of industrial investment, the trend clearly shows that the concentration was largely focused in the field of electrical and electronic goods, non-metallic mineral production, and rubber products. Although other industries had also seen some progress, allowing too much concentration on a limited number of industries could also prove disadvantageous in the long run, as the colonial history of the state has shown in its reliance on a limited

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<sup>91</sup>Calculated from Tables 8.7.3 and 8.7.5.

<sup>92</sup>See Table 8.7.3.

number of primary products. Diversification of investment within the manufacturing sphere remains an important consideration for Perak.

While the growth of investment in the manufacturing industries in the 1980 to 2000 period has helped a great deal in the overall economic development of Perak, there is also the need to examine the development of the service sector, which partly supports the industrial development already discussed and also expands the economy into new activities. The development of this sector during the same period will be considered in the next section.

### **8.8 Intensification of the service sector**

So far the considerable progress in the secondary sector in Perak during the 1980 to 2000 period has been demonstrated. The shift in the economic focus, as planned by both the federal and state governments, to move away from dependence on primary commodities to industrialisation has been emphasised. On the part of Perak, the provision of new economic policies and the roles played in establishing the appropriate basic infrastructure and environment helped the shift to occur. However, these changes occurred only with the existence and expansion of the third sector i.e. the service sector. It was also a part of the state's strategic planning to encourage the expansion of this sector in the 'new' economy.<sup>93</sup>

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<sup>93</sup>The emphasis to expand the service sector has been an essential part of the NEP. However, from 1970, service sector expansion was heavily focused on those activities carried out by the government. It is only in the post-1980 period that participation from the private sector has been encouraged by the government, which, in turn, has contributed to service sector growth, see Perak (1981), p.73.

The need to promote and expand the service sector in the Perak economy during the post-1980 period was based on at least two rationales. First, progress in the expansion of the state secondary sector required the service sector also to expand in order to support its activities without which business operation cycles would be disrupted. This is particularly relevant in such service sub-sectors as transportation, utilities, government services, trade, and finance. Second, the expansion of service industries into new activities could offer an additional source of revenue for the state, apart from increasing the competitiveness of the industry; for example, since the early 1990s the state has begun to focus on such activities as tourism, education, and health.<sup>94</sup> In addition, privatisation of some of the government bodies such as those involved in telecommunications, energy and water supplies helped expedite the service sector expansion process.

The growth of the service sector in Perak can be illustrated by examining its contribution to state GDP and also the growth in employment during the post-1980 period. In terms of GDP, the service sector improved its contribution from 38.4% in 1980 to 43.8% in 1990, and in 2000 the contribution stood at 47.7%.<sup>95</sup> Within the service sector itself, the annual growth rate of 6.2% over the two decades proved to be a significant development for the state (see Table 8.8.1). Except for utilities and government services, which had shown slower annual growth rate in the 1990s, all the other sub-sectors had shown continuous growth through the 1980s and 1990s. For the utilities sub-sector, although the annual growth was faster in the 1980s as compared to the 1990s, the overall two-decade annual growth shows that it represented the fastest growing sub-sector with an annual growth rate of 11.5%. This large growth was attributed, in part, to the efforts by the

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<sup>94</sup>It was the state's intention of turning Ipoh into a healthcare city (Ahmad, interview in October, 2002).

<sup>95</sup>Calculated from Tables 8.8.1 and 8.9.1; see also Table 8.9.2.



government, both federal and state, in providing basic access to clean water and electricity throughout the state, in particular to the rural areas as part of the rural development programmes. The other important contributory factor was the privatisation and corporatisation of utilities which then saw development of new independent power plants and water treatment facilities to meet the growing demand.<sup>96</sup> The privatisation of some of the government services too resulted in the reduced GDP contribution to the state in the 1990s compared to the 1980s. Implementation responsibilities, which were under the state purview during the earlier period, were transferred to the private sector.

**Table 8.8.1 Perak: Service sector GDP contribution, 1980-2000 (in 1978 prices)**

Industry origin	1980	1990	2000	Annual growth rate (%)		
	RM mil.	RM mil.	RM mil.	1980-1990	1990-2000	1980-2000
Utilities	54	173	479	12.3	10.7	11.5
Transport, storage and communications	212	375	709	5.9	6.6	6.2
Wholesale and retail trade, and restaurants and hotel	519	771	1630	4.0	7.8	5.9
Finance, insurance, real estate and business services	456	742	1512	5.0	7.4	6.2
Government services	504	903	1462	6.0	4.9	5.5
Other services	71	108	235	4.3	8.1	6.2
Total	1815	3071	6027	5.4	7.0	6.2

Sources: EPU, Perak (2002c). Address to international participants of Diplomatic Training Course, October 21, Ipoh, p.19 (unpub.); EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, p.36; EPU, Malaysia (1996). *Profil Negeri Perak*, Prime Minister's Department, Table 2 (unpub.); <http://www.perak.gov.my/english/eco1.html> (12/09/2002).

Within the service sector, segregation can also be made in terms of ownership. The government obviously owned government services; and the utility sub-sector, although privatised, still had a 'substantial' government stake.<sup>97</sup> The other sub-sectors as presented in Table 8.8.1 were, by and large, owned by private bodies.<sup>98</sup> The intensification of the service sector in Perak was therefore mainly driven by private capital which saw

<sup>96</sup>For utility privatisation projects involving Perak, see Tables 8.6.1 and 8.6.2 in Section 8.6.

<sup>97</sup>The government stake in these companies takes the form of a large shareholding or a minority shareholding, but with special clauses giving veto power to decide policies.

<sup>98</sup>There was state participation in these sub-sectors, particularly via state agencies and enterprises such as those undertaken by PSDC. However, their participation was small when compared to the whole industry.

opportunities created by the positive development in the secondary sector. The opportunities available saw annual growth rates of between 5.5%-6.2% in these sub-sectors over the 1980 to 2000 period.

The growth of the service sector can also be seen as the expansion of employment. In terms of percentage annual growth rates, the overall employment growth experienced by Perak was not as substantial as that of the GDP contribution, but the growth of labour in the sub-sectors was an important indicator of the state's capability of providing enhanced job opportunities. Between 1980 and 2000, the labour strength in the service sector has increased by about 129,900, expanding at 2.2% annually, with a much faster growth in the decade of the 1980s as compared to the 1990s (see table 8.8.2). The overall decrease of a third in annual growth during the 1990s can be attributed partly to the late recovery from the global economic slowdown and crises in the late 1980s; and again in the late 1990s when another wave of economic crises, this time in Asia, led to a much lower annual growth rate for the whole decade. These crises also forced the service industry, as a whole, to reassess its efficiency and productivity, and at the same time exercise caution in expanding its labour force. In the utilities industry, for example, the capacity to increase efficiency along with the utilisation of modern physical infrastructure did not warrant any major increase in labour in the 1990s; the reduction of almost a thousand in the labour force, when compared to the earlier decade, is evidence of this. It is also possible that the slower overall labour growth in the service sector in the 1990s was the result of maximum capacity attained by some of the sub-sectors or the consolidation of some of them due to the economic changes and demand. This is particularly evident for

the finance and insurance sub-sectors where amalgamation and consolidation<sup>99</sup> forced them to either ‘down-size’ or ‘right-size’ their operations.

**Table 8.8.2 Perak: Service sector labour distribution, 1980 - 2000**

Industry origin	1980	1990	2000	Annual growth rate (%)		
	('000)	('000)	('000)	1980-1990	1990-2000	1980-2000
Utilities	1.7	5.5	4.6	12.5	-1.8	5.1
Wholesale and retail trade, and restaurants and hotels	72.3	131.4	142.9	6.2	0.8	3.5
Transport, storage and communication	18.7	23.9	28.9	2.5	1.9	2.2
Finance, insurance, real estate and business services	7.6	21.9	22.8	11.2	0.4	5.7
Community, social and personal services	112.3	99.9	166.4	-1.2	5.2	2.0
Others (inadequately described or unknown)	23.1	44.5	*	6.8	n.a	n.a
<b>Total</b>	<b>235.7</b>	<b>327.1</b>	<b>365.6</b>	<b>3.3</b>	<b>1.1</b>	<b>2.2</b>

Sources: Perak (1981). *Rancangan Malaysia Keempat Negeri Perak 1981-1985*, Table 4-10, p.79; EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, p.25; Department of Statistics, Malaysia (1991). *Population Report for Administrative Districts*, Table 8.2, p.354; Department of Statistics Malaysia (2000). *State/District Data Bank Malaysia*, Table 8.6, p.252.

Note: \* This figure has been included under community, social and personal services.

The decrease in labour growth in the service sector in the 1990s could have been more substantial had the state not promoted new service sub-sectors such as tourism<sup>100</sup> and tertiary education.<sup>101</sup> The contribution in terms of labour growth by these two sub-sectors may not have been large for the decade, but it was at least capable of mitigating the decreasing labour growth rate in the 1990s.

The intensification of the service sector in Perak during the post-1980 period indicates that its expansion was dependent primarily on the development of the secondary sector.

<sup>99</sup>This was largely the result of the federal government’s attempt in the 1990s to broaden the capital base of these companies to face global competition.

<sup>100</sup>Stronger emphasis to promote tourism was more prevalent from the 1990s when RM533.3 million was allocated under the 6MP and a further RM287.7 million under the 7MP to upgrade tourism-related infrastructure and products in the state. [EPU, Perak (1991a), pp.16-7; EPU, Perak (1995a), pp. 73-77]

<sup>101</sup>Excluding public institutions, the private institutions of higher learning in Perak alone numbered 38 in 2003 of which most began operating between 1997 to 2000. [see Mohammed Halib (2003). ‘Developing Perak’s Third Sector In Tandem With The Rapidly Modernising State and National Economy’, seminar paper presented at *The Perak Economic Summit*, Ipoh, 8-9 September 2003, p.3] At the end of 1999 a total of 4 universities either main or branch campuses, both public and private, were operating in Perak. The first to be established was the branch campus of Universiti Sains Malaysia in 1989. [EPU, Perak (1991a), p.18; EPU, Perak (1999b), p.33]

Although attempts have been made to further accelerate the expansion of the service sector itself by taking advantage of the state's natural attractions and diversified cultures to promote tourism, and also the initiatives to promote the state as an educational hub, the result, at least up to 2000, had not been particularly successful. While more time is probably needed to allow for these sub-sectors to evolve, more effort is clearly needed to realise the full potential of these new sub-sectors.

## **8.9 Sectoral contributions to state revenue**

The continuous efforts undertaken by Perak to shift its economic dependence from tin and rubber to a more diversified economy since independence have taken on greater energy in the post-1980s period. The post-independence changing economic landscape presented from Chapter 6 demonstrates that Perak has undergone significant economic modernisation, attempting to combine both the aspirations as advocated in the NEP and NDP, and at the same time addressing global economic changes. These changes have obviously resulted in changes in the respective sectoral contributions to the economy - the prime reason for the economic diversification strategy by the state in the first place. This section will examine the extent of these changes during the post-1980 period.

First of all, examining changes in land use distribution, as depicted in Table 8.9.1 below, shows some significant shifts in the economic sectors as compared to the earlier period.<sup>102</sup> Agriculture, which represented 22.2% of the land in the state in 1974, had increased to 32.1% in 2000, apparently signifying the continuing importance of this

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<sup>102</sup>Although this section deals with the post-1980 period, figures for 1974 were used in the table for comparative purposes, as those for the late 1970s or the 1980s are not available. This is evident when state official statistical documents in the 1980s still use the 1974 figures, e.g. EPU, Perak (1986a), p.39.

sector to Perak. This large increase in land utilisation in the agricultural sector was mainly the result of extensive expansion in the plantation sector particularly in oil palm cultivation. On the other hand, the increase in the proportion of urban or industrial land in the state during the same period saw only minimal change, hovering at 0.8% since 1974, until there was a slight increase to 1% from the second half of the 1990s. The increase in both agricultural and urban/industrial areas saw the reduction of forest areas from 61.3% of total state land in 1974 to only about 47% in 2000. Interpreting these data alone, the assumption would be that the state economy is still very dependent on agriculture, as in previous eras. However, the reality is far from that. Although the changes in land

**Table 8.9.1 Perak: Changes in land use distribution 1974-2000, selected years (%)**

Land use category	1974	1992	1997	2000
Agriculture	22.2	26.4	30.1	32.1
Urban/Industry	0.8	0.8	1.0	1.0
Forest	61.3	48.8	46.9	47.0
Others*	15.7	24.0	22.0	19.9
Total	100.0	100.0	100.0	100.0

Sources: Wong (1974). *The Present Land Use of Peninsular Malaysia*, Vol. 1, Ministry of Agriculture, pp.394-5; EPU, Perak (1993). *Bank Data Negeri Perak Darul Ridzuan*, March, p.1; EPU, Perak (1998). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan 1998*, Table 2.4, p.14; EPU, Perak (2000). *Briefing Note on Economic Development of Perak State*, p.4 (unpub.); EPU, Perak (2002c). *Address to International Participants of Diplomatic Training Course*, 21 Oct 2002, p.4 (unpub.).  
 Note: \* Include mining land.

distribution were mostly the result of agricultural expansion, the contribution towards the state economy was gradually overtaken by urban and industrial activities, despite the marginal increase in land use for this category since 1974. It was within this latter land category that expansion in the secondary and tertiary sectors was mainly located.

The changes that took place in the various sectoral contributions to the state economy can further be demonstrated by the changes in the state GDP during the post-1980 period (see Table 8.9.2). Within two decades, the GDP of Perak had increased by more than two-

and-a-half times from RM4,725 million in 1980 to RM12,638 million in 2000, with a faster annual growth of 6.1% in the 1990s compared to the 4% annual growth in the 1980s. Comparing the three main economic sectors, the secondary sector experienced the largest annual growth at 8.2% followed by the tertiary (6.2%) and primary (1.1%) sectors during the post-1980 period. This is significantly in contrast to the situation of the previous decades when the primary sector was the largest contributor to state GDP, during the period when rubber and tin were the mainstays of Perak's economy.<sup>103</sup>

**Table 8.9.2 Perak: Gross Domestic Product by industry of origin, 1980-2000**  
(in 1978 prices)

Sector	1980	1990	2000	Annual growth rate (%)		
	RM mil.	RM mil.	RM mil.	1980-1990	1990-2000	1980-2000
<b>Primary sector</b>	<b>2,061</b>	<b>2,361</b>	<b>2,542</b>	<b>1.4</b>	<b>0.7</b>	<b>1.1</b>
Agriculture, forestry, and fishing	1,307	1,991	2,435	4.3	2.0	3.2
Mining and quarrying	754	370	107	-6.9	-11.7	-9.3
<b>Secondary sector</b>	<b>849</b>	<b>1,584</b>	<b>4,069</b>	<b>6.4</b>	<b>9.9</b>	<b>8.2</b>
Manufacturing	663	1,383	3,664	7.6	10.2	8.9
Construction	186	201	405	0.8	7.3	4.0
<b>Tertiary sector*</b>	<b>1,815</b>	<b>3,071</b>	<b>6,027</b>	<b>5.4</b>	<b>7.0</b>	<b>6.2</b>
<b>Total</b>	<b>4,725</b>	<b>7,017</b>	<b>12,638</b>	<b>4.0</b>	<b>6.1</b>	<b>5.0</b>

Sources: EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, p.36; EPU, Malaysia (1996). *Profil Negeri Perak*, Table 2 (unpub.); <http://www.perak.gov.my/english/eco1.html> (12/09/2002); EPU, Perak (1991a). *Taklimat Pembangunan Negeri Perak Darul Ridzuan*, 14 March 1991, p.6 (unpub.); EPU, Perak (2002c). *Address to International Participants of Diplomatic Training Course*, 21 October 2002, p.5 (unpub.); EPU, Perak (2002a). *Pembangunan Ekonomi dan Industri Negeri Perak, Seminar Sasaran Kerja Tahun 2002/2003*, p.5 (unpub.).

Note: \* For detailed breakdown of this sector, see Table 8.8.1 in Section 8.8

Examining the growth of the sub-sectors within the primary sector, it is evident that, despite the large increase in agricultural land use during the two decades as shown in Table 8.9.1, the annual growth rate in GDP was minimal; in fact, this sub-sector witnessed a significant decline in the 1990s compared to the earlier decade from 4.3% to 2.0%. The mining and quarrying sub-sector performed even worse with consistently larger negative annual growth rates throughout the period, which only confirmed the decline in importance of tin mining in particular. In the secondary sector, manufacturing, which increased in importance from the 1960s, made even more progress in the post-

<sup>103</sup>In 1970 the primary sector represented 49.3% of the state GDP. [EPU, Perak (1986a) p.36]

1980 period, with an annual growth rate of 7.6% in the 1980s and 10.2% in the 1990s. The construction sub-sector, however, did not perform favourably in the 1980s with only 0.8% annual growth rate, though it recovered significantly in the 1990s with an annual growth rate of 7.3%. This was largely attributed to the privatisation of infrastructure projects. As for the tertiary sector, its growth shows a commendable contribution to the state economy as has been discussed in the previous section (particularly with reference to Table 8.8.1).

The data clearly indicate the shift in sectoral contributions; the changes can be presented in terms of the percentage composition of the GDP (see Table 8.9.3). The reduction in the primary sector is evident in that within the period it decreased by more than half from 43.6% in 1980 to 20.1% in 2000. On the other hand, the secondary sector increased by almost double from 18% in 1980 to 32.2% in 2000. For the tertiary sector, the rapid increase in the secondary sector had mainly encouraged the expansion of service industries which saw an expansion from 38.4% to 47.7% during the same period.

As GDP measures the output produced by factors of production in the respective economic sectors, the changes and the intensity of GDP growth in Perak obviously suggest that sectoral contributions in terms of revenue would also change in relation to changes in the composition of GDP i.e. the tertiary (service) sector would be the largest revenue contributor to the state in the post-1980 period. However, a specific breakdown of state revenue according to the economic sectors is not available. Broad revenue trends do indicate that the changing economic structure did produce positive movements during the period (see Figure 8.9.1).<sup>104</sup> It has to be mentioned that the total state revenues were

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<sup>104</sup>For detailed statistics on the annual state revenues and expenses from 1957 to 2000, see Appendix 8.

**Table 8.9.3 Perak: GDP structure by percentage proportions (%),  
1980-2000**

Sector	1980	1990	2000
<b>Primary sector</b>	<b>43.6</b>	<b>33.6</b>	<b>20.1</b>
Agriculture, forestry, and fishing	27.7	28.4	19.3
Mining and quarrying	16.0	5.3	0.8
<b>Secondary sector</b>	<b>18.0</b>	<b>22.6</b>	<b>32.2</b>
Manufacturing	14.0	19.7	29.0
Construction	3.9	2.9	3.2
<b>Tertiary sector</b>	<b>38.4</b>	<b>43.8</b>	<b>47.7</b>
Public Utilities	1.1	2.5	3.8
Transport, storage and communication	4.5	5.3	5.6
Wholesale and retail trade, and restaurants and hotels	11.0	11.0	12.9
Finance, insurance, real estate and business services	9.7	10.6	12.0
Government services	10.7	12.9	11.6
Other services	1.5	1.5	1.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Sources: Calculated from Table 8.9.2; EPU, Perak (1998). *Buku Perangkaan Negeri Perak Darul Ridzuan*, Table 5.2, p.36.

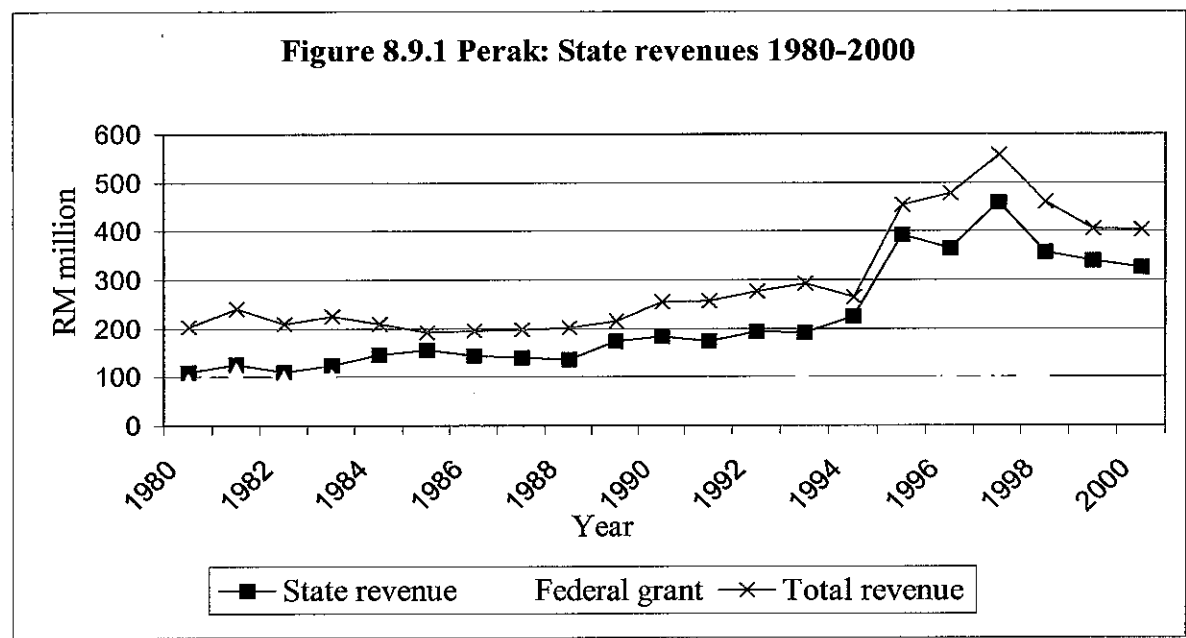
also made up of federal grants; these annual grants, however, were generally small compared to the revenues raised within the state, except from 1980 to 1983 when the grants were almost equal to the internal state revenues.<sup>105</sup> Figure 8.9.1 also shows that the federal grants, in most years, fall within the RM0-RM100 million category, a contrasting trend when compared to the internal state revenues. In the decade of the 1980s, the 4% overall state GDP growth had witnessed an upward trend in state revenues, generating between RM100 million to RM200 million annually. This trend continued in the early 1990s, and assisted by the global economic boom towards the middle of that decade, the internal revenue for Perak breached the RM200 million mark per year and reached its height in 1997. It then generated revenue of RM459.52 million before facing the impact of the Asian financial crisis. The crisis resulted in a declining trend in state revenues to RM326.53 million in 2000. Based on the annual revenues raised within the

The revenue figures for 1987 in Figure 8.9.1 have been interpolated due to unavailability.

<sup>105</sup>From 1980 to 2000 the federal grants represented an average of 35.1% of Perak's total revenues. [calculated from Appendix 8]



state (see Figure 8.9.1), and the changing GDP structure for the same period, the assertion is that the state had managed to spread its revenue generation across a broader economic base with emphasis shifting to both the secondary and tertiary sectors. The changes are also expressed in a changing labour pattern, which will be examined in the next section.



### 8.10 The changing labour pattern in the various sectors of the economy

In terms of population growth, the state witnessed a slowing down in the annual growth rate from 1.56% during the 1957 to 1980 period<sup>106</sup> to only 1.01% per year from 1980 to 2000;<sup>107</sup> translated into an actual population count the early period showed a total increase of about 522,300 people while the latter an increase of about 386,445 people. Although there was a slowing down in population growth in the latter period, it was the population born during the former which provided the main labour force component in the 1980 to 2000 period; it was this group that largely contributed to new additions to the

<sup>106</sup>Calculated from Table 6.7.1 in Section 6.7.  
<sup>107</sup>Calculated from Table 8.10.1.

labour force.

As depicted in Table 8.10.1 below, the growth of the active labour force was faster in the 1980s compared to the 1990s. With an average labour force participation rate of about 62% of the working-age population, there was a total of 127,815 new entrants in the active labour force during the 1980 to 1991 period against a falling figure of only 71,111 during the 1991 to 2000 period. In total, there were 198,926 additional people who entered the workforce during these two decades. With the changing economic structure that saw the decline in the primary sector and the reluctance of the younger generation to become involved in agriculture, labour moved into other sectors or migrated elsewhere.<sup>108</sup> Along with the new entrants into the labour market, the competition for jobs became much stiffer, and failure to secure appropriate employment resulted in movement to other states.

**Table 8.10.1 Perak: Labour force participation rate, 1980-2000**

	1980	1991	2000
Population	1,743,655	1,995,319	2,130,100
Labour force aged 15-64	969,593	1,144,135	1,307,881
Labour force participation rate (%)	62.7	63.6	59.8
Total labour force	608,340	727,669	782,113
Unemployment rate (%)	7.7	5.3	2.8
Unemployed labour force	47,112	38,566	21,899
Active labour force	561,288	689,103	760,214

Sources: EPU, Perak (1991c), *Perangkaan Asas Negeri Perak*, p.9; Department of Statistics Malaysia (1991). Population Report for *Administrative Districts*, Table 8.2, p.354; EPU, Perak (1998). *Buku Perangkaan Utama Negeri Perak Darul Ridzuan*, Table 3.6, p.24; EPU, Perak (2002a). *Briefing Note on Economic Development of Perak State*, p.9 (unpub.); Department of Statistics Malaysia (2000). *State/District Data Bank*, pp. 1, 18, 247.

For the state, the policy of expanding the secondary and the tertiary sectors helped provide the much-needed work for the growing labour force. Manufacturing industry,

<sup>108</sup>If the state cannot retain the young people to work in Perak, the older generation will follow (Hamdan, interview in October, 2002).

which expanded in the 1980s, created considerable work opportunities in this sub-sector. It was estimated that, if all the approved industrial development projects for the state were to be implemented as planned, the state would be able to provide almost 130,000 jobs in this sector alone (see Table 8.10.2). However, as indicated by the industrial project status in Section 8.7, only about 63.8% of these projects were actually implemented by the year 2000.<sup>109</sup> Broadly taking this percentage to also represent labour requirements, then the manufacturing sub-sector was only able to provide some 82,300 jobs.<sup>110</sup> The failure of the state and the industrial investors to pursue the implementation of the approved projects or to substitute with other viable industrial projects hypothetically caused a loss of almost 46,700 job opportunities for the labour force in Perak during the period. Although it was certainly a setback, it was the growth of this sector which helped significantly to reduce the state unemployment rate from 7.7% in 1980 to 2.8% in 2000.<sup>111</sup>

**Table 8.10.2 Perak: Industrial labour requirement 1980-2000**

Year	Total number of projects	Labour requirement	Year	Total number of projects	Labour requirement
1980	34	2,485	1991	74	13,359
1981	46	6,319	1992	50	4,844
1982	32	1,812	1993	44	5,794
1983	33	3,140	1994	57	5,424
1984	62	3,806	1995	65	10,151
1985	46	3,034	1996	43	3,697
1986	32	3,635	1997	50	4,537
1987	12	1,424	1998	52	4,837
1988	43	9,338	1999	56	7,165
1989	37	11,305	2000	57	9,240
1990	68	13,606	Total	993	128,952

Source: Collated from PSDC (2002b). *Sistem Maklumat Kelulusan Projek MIDA, Laporan Statistik Kelulusan Projek Mengikut Tahun*, p.20 (unpub.).

<sup>109</sup>Calculated from Table 8.7.5 in Section 8.7.

<sup>110</sup>These numbers were limited to those new projects that had required approval from the state and federal authorities since 1980. It does not include those jobs in the existing industries operating in the same sub-sector.

<sup>111</sup>See Table 8.10.1.

On a state macro-level, the changing labour pattern in all sectors of the economy in the post-1980 period can be illustrated in Tables 8.10.3 and 8.10.4. As the state's economic structure shifted, the composition of the labour force followed suit. In the primary sector the labour force decreased from 241,300 in 1980 to 156,600 in 2000, or a reduction of more than a third (35.1%). The overall decline in this sector which showed a negative labour annual growth of 2.1% during the two decades was the result of firstly, the decline in the tin mining<sup>112</sup> industry and the movement of labour towards the secondary sector, with a small portion moving towards market gardening, particularly in the Kinta area, as documented earlier.<sup>113</sup>

Secondly, in the agriculture sub-sector there was a large reduction in the labour force in

**Table 8.10.3 Perak: Labour distribution, 1980-2000**

Sector	1980		1990		2000	
	('000)	%	('000)	%	('000)	%
<b>Primary</b>	<b>241.3</b>	<b>42.3</b>	<b>199.1</b>	<b>29.1</b>	<b>156.6</b>	<b>20.6</b>
Agriculture, forestry, hunting and fishing	215.3	37.7	186.1	27.2	152.8	20.1
Mining and quarrying	26.0	4.6	13.0	1.9	3.8	0.5
<b>Secondary</b>	<b>94.8</b>	<b>16.6</b>	<b>158.0</b>	<b>23.1</b>	<b>238.0</b>	<b>31.3</b>
Manufacturing	67.8	11.9	119.7	17.5	181.7	23.9
Construction	27.0	4.7	38.3	5.6	56.3	7.4
<b>Tertiary</b>	<b>235.7</b>	<b>41.1</b>	<b>327.1</b>	<b>47.8</b>	<b>365.6</b>	<b>48.1</b>
Utilities	1.7	0.3	5.5	0.8	4.6	0.6
Wholesale and retail trade, and restaurants and hotels	72.3	12.6	131.4	19.2	142.9	18.8
Transport, storage and communication	18.7	3.3	23.9	3.5	28.9	3.8
Finance, insurance, real estate and business services	7.6	1.3	21.9	3.2	22.8	3.0
Community, social and personal services	112.3	19.6	99.9	14.6	166.4	21.9
Others*	23.1	4.0	44.5	6.5	**	**
<b>Total</b>	<b>571.8</b>	<b>100.0</b>	<b>684.2</b>	<b>100.0</b>	<b>760.2</b>	<b>100.0</b>

Sources: Perak (1981). *Rancangan Malaysia Keempat Negeri Perak 1981-1985*, Table 4-10, p.79; EPU, Perak (1986a). *Statistik Negeri Perak 1980-1985*, p.25; Department of Statistics, Malaysia (1991). *Population Report for Administrative Districts*, Table 8.2, p.354; Department of Statistics, Malaysia (2000). *State/District Data Bank*, Table 8.6, p.252.

Note: \* Inadequately described or unknown.

\*\* These figures have been included under community, social and personal services.

<sup>112</sup>See Table 7.4.1. Tin mining labour in Perak had declined from 23,821 in 1980 to only 999 in 2000.

<sup>113</sup>See Table 7.4.3 in Section 7.4.

rubber plantation industry. In 1961 there were 391 estates, in 1980, 258 were in operation, which then decreased to 206 in 1990, and by 2000 there were only 84 rubber estates still operating in Perak.<sup>114</sup> This saw the total labour force reduced from 19,553 in 1980 to only 2,832 in 2000.<sup>115</sup> While it can be suggested that the movement into oil palm cultivation could have caused the decline of labour in the rubber industry<sup>116</sup> this situation did not seem to take place. The overall labour decline of 84,700 in the agriculture sub-sector during the two decades does not seem to support this assertion; and this took place when both rubber and oil palm cultivation in Perak had cumulatively increased their total hectarage from 344,405 hectares in 1980 to 530,235 hectares in 2000.

**Table 8.10.4 Perak: Labour annual growth rate (%), 1980-2000**

Sector	1980-1990	1990-2000	1980-2000
<b>Primary</b>	<b>-1.9</b>	<b>-2.4</b>	<b>-2.1</b>
Agriculture, forestry, hunting and fishing	-1.4	-2.0	-1.7
Mining and quarrying	-6.7	-11.6	-9.2
<b>Secondary</b>	<b>5.2</b>	<b>4.2</b>	<b>4.7</b>
Manufacturing	5.8	4.3	5.1
Construction	3.6	3.9	3.7
<b>Tertiary</b>	<b>3.3</b>	<b>1.1</b>	<b>2.2</b>
Utilities	12.5	-1.8	5.1
Wholesale and retail trade, and restaurants and hotels	6.2	0.8	3.5
Transport, storage and communication	2.5	1.9	2.2
Finance, insurance, real estate and business services	11.2	0.4	5.6
Community, social and personal services	-1.2	5.2	2.0
Others (inadequately described or unknown)	6.8	**	**
<b>Total</b>	<b>1.8</b>	<b>1.1</b>	<b>1.4</b>

Sources: Calculated from Table 8.10.3.

Note: \*\* These figures have been included under community, social and personal services.

The growth in labour utilisation during the 1980 to 2000 period was greatest in the secondary sector. The annual labour growth rate of 4.7% in the two decades saw labour

<sup>114</sup>Department of Statistics, Malaysia, *Rubber Statistics Handbook*, various years 1968-2001.

<sup>115</sup>*Ibid.*

<sup>116</sup>Oil palm cultivation had increased from 90,367 hectares in 1980 to 319,086 hectares in 1999. In 1980 the total oil palm hectarage in Perak was only 36% in size when compared to rubber cultivation, see Table 7.5.1 in Section 7.5.

increase from 94,800 in 1980 to 238,000 in 2000, an increase of 143,200; manufacturing saw an increase of 113,900 and the construction sub-sector increased by 29,300. The increase in the construction sub-sector was the direct result of the intensification of industrial project development, privatisation of government projects and the increase in housing demands.

The intensification of industrial development in the state, both in terms of the increase in the number of industrial estates and in investments, has been shown in the previous sections. The increase of labour utilisation however requires further examination. In 1980, the manufacturing sub-sector utilised a total labour force of 67,800; and based on the implementation of approved industrial projects, as indicated earlier in this section, this sector had also provided an estimated total of about 82,300 new jobs.<sup>117</sup> The total labour force in this sub-sector, therefore, would have been in the region of 150,000 people. As statistical figures in 2000 show 181,700 people were employed in this sub-sector, the difference of some 30,000 workers would either represent those in the ancillary industries but within the manufacturing sub-sectors, or those residing in Perak but actually working in neighbouring states. It is more likely that the latter represents a larger portion, particularly in the 1990s, when manufacturing development in the neighbouring states, especially those districts in Penang, Selangor, and south of Kedah, adjacent to the Perak borders, saw tremendous growth.<sup>118</sup> This circumstance also emerged as a result of many enterprises in the state during the same period, particularly multinational companies, reorganising their operations, which either involved relocation,

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<sup>117</sup>Between 1980 to 1985 a total of 55 factories throughout the state ceased operation, the majority of them in the textile industry, due to stiff competition, involving the laying-off of 3,011 workers. [EPU, Perak (1986a), p.107]

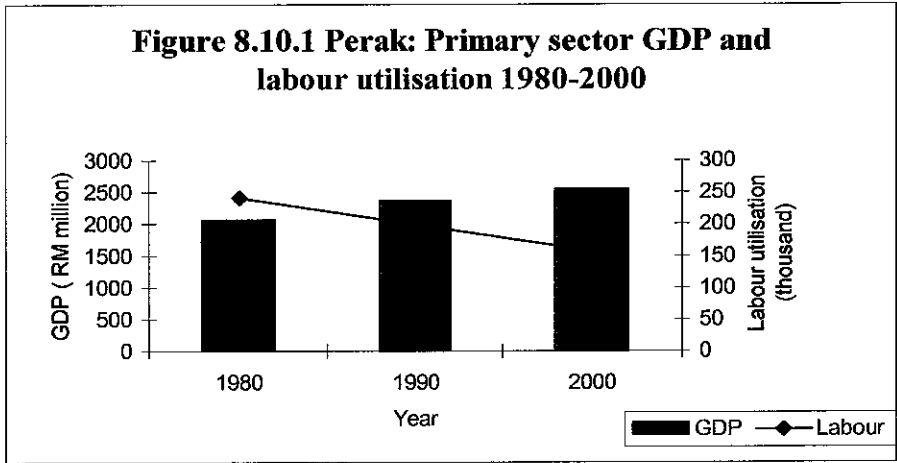
<sup>118</sup>EPU, Perak (1995a), p.55.

or downsizing as a response to global demand and competition. The reduction of labour also took place in the local enterprises either through shutdowns or downsizing as a result of tough economic competition, especially in the second half of the 1990s. The improved logistical development, such as the completion of the North-South Highway and better transportation facilities, had also influenced the movement of workers to those districts at the north- and south-end of the Perak border.

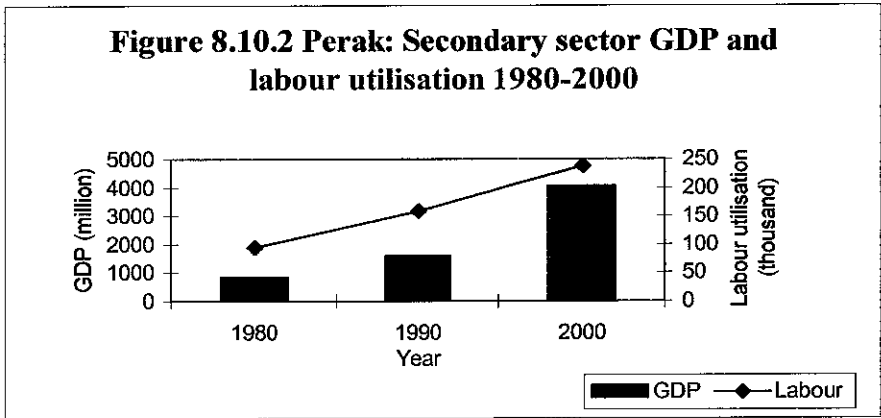
In the tertiary sector, labour utilisation had grown from 235,700 in 1980 to 365,600 in 2000, an increase of 129,900 people. The net increase in this sector was close to that of the secondary sector. Much of the increase in labour in this sector took place in the 1980s when there was expansion in many of the service industries, particularly in the utilities and finance-related sub-sectors. The emphasis given by the state to education and tourism in the 1990s did not result in rapid growth in employment related to sub-sectors such as hotels and transport; this is evident by the slower labour annual growth of 1.1% in the 1990s compared to 3.3% in the 1980s. The tertiary sector, however, became the largest employment sector in Perak from 1990.

In examining the labour pattern in the various sectors of the economy against the increase in GDP during the post-1980 period, some trends have emerged, as presented in Figures 8.10.1, 8.10.2, and 8.10.3. Labour utilisation in the primary sector witnessed a declining trend despite its increased contribution to GDP. The increase in economic output against a declining labour utilisation suggests that the use of modern technology and large-scale operations, particularly in agriculture had, for the most part, resulted in increased efficiency and outputs. In the secondary and tertiary sectors, the trends were almost

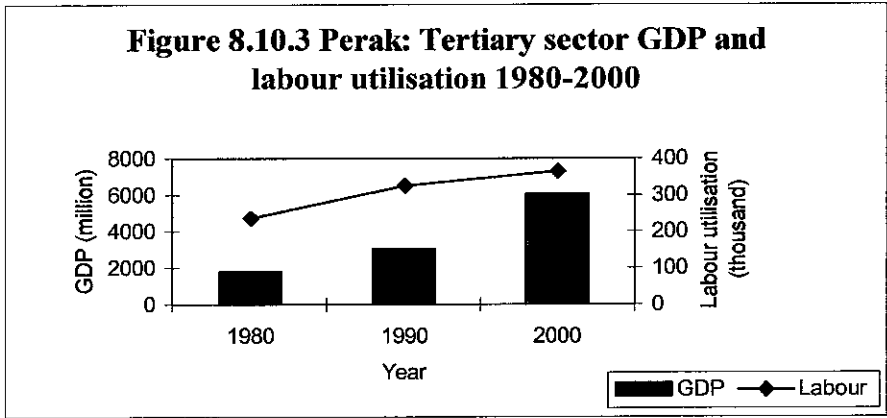
identical i.e. the increase in GDP was accompanied by an increase in labour utilisation, although the rates of growth of the sectors were not the same. The trend of labour utilisation in Perak as a whole indicates that the total labour utilisation growth was in line with the growth in the state's GDP (see Figure 8.10.4).



Sources: Tables 8.9.2 and 8.10.3.

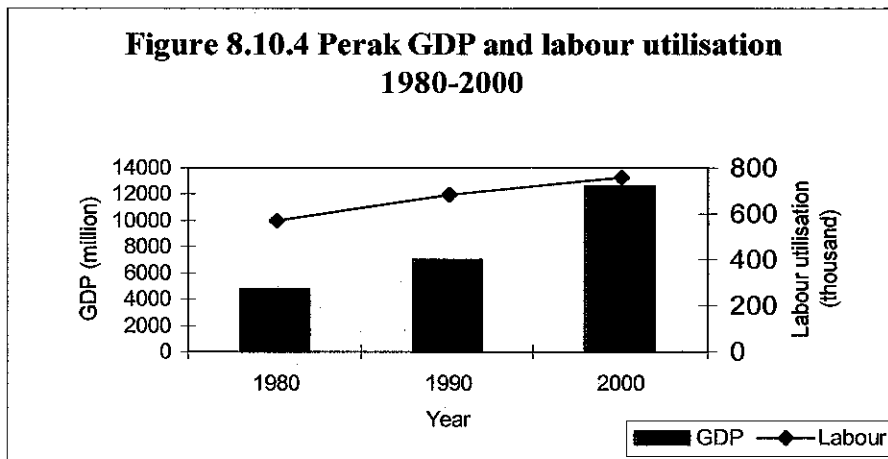


Sources: Tables 8.9.2 and 8.10.3.



Sources: Tables 8.9.2 and 8.10.3.





Sources: Tables 8.9.2 and 8.10.3.

Labour force utilisation in Perak has an added dimension. While the overall labour utilisation pattern broadly coincided with GDP growth throughout the 1980 to 2000 period, the state government's official documents indicate that the state underwent two different stages of labour utilisation: in the 1980s the state economic environment was initially slow in creating sufficient job opportunities for the expanding work force but had begun to improve considerably towards the end of the period with substantial job creation, particularly in the secondary and tertiary sectors;<sup>119</sup> whereas the 1990s was identified as a period when labour shortages were taking place in the state economy, primarily in the secondary sector.<sup>120</sup> However, it is contended that Perak was capable of providing a sufficient labour force during the whole of the two decades; it was the slower growth in appropriate job creation<sup>121</sup> and the mismatch between available jobs and available labour, which appear to be the state's predicament. This resulted in the inability to sustain an increased labour population within the state.

<sup>119</sup>Perak (1981), pp.76-78A.

<sup>120</sup>EPU, Perak (1995a), pp.54-57; EPU, Perak (1996), pp.3-5.

<sup>121</sup>EPU, Malaysia (1996), p.10.

One consequence of the failure to provide sufficient job opportunities was the movement of labour to work in the economically faster developing districts in adjacent states while still residing in Perak. A more serious consequence was permanent out-migration.<sup>122</sup> Although in the short term out-migration can alleviate the pressure on the state, in the longer term it can only result in a negative impact on the local economy and, at the same time, benefit recipient states. The phenomenon of the 'net-loss' of labour since the 1970s persisted during the 1980 to 2000 period;<sup>123</sup> however, the out-migration rate has decreased from a high of 15.7% of the total population in 1980 to less than a percent (0.3%) in 2000.<sup>124</sup> Even so, the total number that has emigrated from Perak over the two decades does represent a loss of labour resources to the state economy.

As mentioned earlier, the mismatch between available jobs and labour also seems to be a problem faced by the state, which was also caused by out-migration. The reasons for the mismatch cannot be determined decisively, whether it was due to inappropriate skills or lower wages offered - all this requires further, separate in-depth research. But the increasing presence of foreign workers in Perak to fill the gaps in labour needs is evidence enough that job opportunities were available in the state. Although the phenomenon of engaging foreign labour is nothing new to Perak, as witnessed during the colonial period, it seems to have been relatively insignificant during the period of independence until recently. Only in the 1990s had the subject of foreign labour begun to re-emerge as a state issue,<sup>125</sup> and the government had been indirectly encouraging it by allowing the recruitment of foreign labour by the industries. The increase in immigration

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<sup>122</sup>Perak had lost most of her skilled workers due to migration (Hamdan, interview in October, 2002).

<sup>123</sup>See fn. 106 in Chapter 6; also fn. 50 in Chapter 7.

<sup>124</sup>In 2000 the total net out-migration from Perak had dropped to only 6,945 people. [Department of Statistics, Malaysia (2001), p.24]

<sup>125</sup>For example, see EPU, Perak (1995a), pp.53-4.

of foreign labour, particularly from Indonesia into Perak is on a continuous upward trend. In 1991, for example, the total registered foreign labour working in Perak was only 6,351: the majority (39.8%) was engaged in the agricultural sub-sector; 1,345 (21.2%) in construction; 683 (10.8%) in manufacturing; and the balance was distributed throughout the other sub-sectors.<sup>126</sup> At the end of 1994, Perak was reported to have 17,000 foreign labourers of which 1,526 were in the manufacturing sector.<sup>127</sup> However, in 1999 the total foreign labour actively engaged in the state economy was reported to be 28,029 people.<sup>128</sup> Although these statistics did not indicate the precise distribution of foreign labour, it is suggested that their participation existed in all economic sectors particularly in agricultural, manufacturing, and the construction sectors. The rapid increase in foreign labour not only confirms the abundance of job opportunities in the state, but also the preference of certain segments of the available local labour to seek work elsewhere. These numbers, however, exclude those illegal immigrants working in the state for which the total is unknown.<sup>129</sup> For comparative purposes, the net out-migration from Perak from 1981 to 1990 totalled 87,043.<sup>130</sup> This figure alone far exceeded the number of registered foreign labourers employed in the various economic sectors in 1999. If the state had taken advantage of creating employment for the local labour market, the economic multiplier effect would be much greater compared to foreign labour where repatriation of funds to their home country limits the effect in Perak. Perak during the two decades seems to have failed in matching human resources to job availability in order to optimise returns to the state.

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<sup>126</sup>Department of Statistics, Malaysia (1995), p.354.

<sup>127</sup>EPU, Perak (1995a), p.54.

<sup>128</sup>Calculated from Department of Statistics, Malaysia (2000), p.248.

<sup>129</sup>It was estimated that the illegal immigrants in Malaysia dispersed in all states numbered between 300,000 to one million in 1998, see Azizah Kassim, 'International Migration and its Impact on Malaysia' in M.J. Hassan (ed.) (1998). *A Pacific Peace: Issues and Responses*, Kuala Lumpur: ISIS, pp.273-305.

<sup>130</sup>Calculated from EPU, Perak (1993), p.21.

While the general changes in the overall labour pattern in various sectors have been dealt with above, the changes in ethnic terms also deserve further examination, similar to those given during the colonial and the 1957-1980 periods. The most drastic change occurred within the *bumiputera* community (see Table 8.10.5). During the period of 1980-2000 the involvement of *bumiputera* in the agricultural sub-sector as a percentage of its own total active labour population had decreased drastically from 51.3% in 1980 to 16.7% in 2000. This provides clear evidence that agriculture was no longer capable of attracting younger workers. As a replacement, large increases were noted in the secondary and tertiary sectors.

**Table 8.10.5 Perak: Labour force distribution by sector and ethnicity, 1980-2000 (percentage)**

Sector	<i>Bumiputera</i>			Chinese			Indians		
	1980	1991	2000	1980	1991	2000	1980	1991	2000
<b>Primary</b>	<b>54.1</b>	<b>29.2</b>	<b>17.0</b>	<b>28.3</b>	<b>16.2</b>	<b>11.7</b>	<b>45.5</b>	<b>27.1</b>	<b>14.2</b>
Agriculture, forestry, hunting and fishing	51.3	28.4	16.7	21.5	15.3	11.3	42.1	26.1	13.7
Mining and quarrying	2.8	0.8	0.3	6.8	0.9	0.4	3.4	1.0	0.5
<b>Secondary</b>	<b>9.4</b>	<b>18.5</b>	<b>26.4</b>	<b>24.7</b>	<b>27.8</b>	<b>31.2</b>	<b>15.1</b>	<b>29.2</b>	<b>36.5</b>
Manufacturing	7.6	15.7	22.2	16.4	17.4	18.5	11.7	24.7	30.4
Construction	1.8	2.8	4.2	8.3	10.4	12.7	3.4	4.5	6.1
<b>Tertiary</b>	<b>33.0</b>	<b>49.8</b>	<b>52.9</b>	<b>42.2</b>	<b>48.1</b>	<b>54.1</b>	<b>35.5</b>	<b>39.4</b>	<b>45.5</b>
Utilities	0.3	1.2	1.0	0.2	0.3	0.4	0.6	1.3	0.9
Wholesale and retail trade, and restaurants and hotels	5.6	8.3	11.6	21.4	23.8	31.1	9.1	9.8	13.8
Transport, storage and communication	2.0	2.6	4.3	4.3	4.4	5.4	4.2	5.9	9.1
Finance, insurance, real estate and business services	0.9	1.7	2.8	1.7	2.9	5.3	1.6	2.0	3.4
Community, social and personal services	24.2	36.0	33.2	14.6	16.7	11.9	20.0	20.4	18.3
<b>Others</b> (inadequately described or unknown)	<b>3.5</b>	<b>2.5</b>	<b>3.7</b>	<b>4.8</b>	<b>7.9</b>	<b>3.0</b>	<b>3.9</b>	<b>4.3</b>	<b>3.8</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Appendix 7.

The involvement of *bumiputera* in the manufacturing sector had expanded from 7.6% in 1980 to 22.2% in 2000 or from 19,181 to 70,758 active labourers respectively. In fact,

1991 statistics show that the manufacturing sub-sector, which used to be dominated by the Chinese, had received considerable numbers of *bumiputera*. During that year the total *bumiputera* labour force in this sub-sector stood at 42,212 against the Chinese at 36,490.<sup>131</sup> The *bumiputera* involvement in the construction sector underwent a minor change from 1.8% in 1980 to 4.2% in 2000.

In the tertiary sector, significant changes within the *bumiputera* community occurred in the wholesale and retail trade, restaurants and hotels, as well as in community, social, and personal services. In the former sub-sector their participation had increased from 5.6% in 1980 to 11.6% in 2000, and in the latter from 24.2% to 33.2%. The large increase in the latter was partly due to considerable recruitment in the state civil service and its agencies.

For the Chinese, a similar trend occurred i.e. there was a decrease in the primary sector involvement replaced by an increase in the secondary and tertiary sectors. In the primary sector, agriculture and mining sub-sectors both had decreased from 21.5% in 1980 to 11.3% in 2000, and from 6.8% to 0.4% respectively. Although no drastic changes took place in the secondary sector, more Chinese involvement was seen in the construction sub-sector compared to manufacturing. During the period 1980 to 2000 manufacturing had increased by only 2.1% against the construction sub-sector which had increased by 4.4%.

Two sub-sectors within the tertiary sector displayed significant changes. The wholesale and retail trade, restaurants and hotels sub-sector shows a remarkable increase from

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<sup>131</sup>See Appendix 7.

21.4% in 1980 to 31.1% in 2000, a labour force increase of 16,737 Chinese. In contrast, however, the Chinese seemed to be withdrawing from the community, social, and personal services sub-sector which experienced a decline from 14.6% in 1980 to 11.9% in 2000 involving a reduction of 8,641 of labour in this sub-sector.

The general trend of the Indians is analogous to the *bumiputera* and Chinese i.e. moving away from the primary to other sectors. The association of Indians with estate plantation labour and public works had waned. Among the Indian labour force, their participation in the agricultural sub-sector had declined drastically from 42.1% in 1980 to 13.7% in 2000 or from a total workforce of 35,277 to only 12,543. The significant decline had been largely counterbalanced by the increased participation in manufacturing from 11.7% in 1980 to 30.4% in 2000. Increased participation in construction is also evident when the participation rate had almost doubled from 3.4% in 1980 to 6.1% in 2000.

Significant changes in participation amongst the Indians in the tertiary sector were also apparent during the period 1980 to 2000. Involvement in the wholesale and retail trade sub-sector had increased from 9.1% in 1980 to 13.8% in 2000. On the other hand, the transport, storage and communication sub-sector had more than doubled from 4.2% to 9.1%. Similar incremental growth can be seen in the finance sub-sector when it increased from 1.6% to 3.4%. All these increments resulted in an additional Indian labour force of 11,499 in those sub-sectors.

Therefore, the labour utilisation pattern in Perak during 1980-2000 had changed tremendously compared to the earlier period of 1957-1980. The primary sector failed to

attract new available labour force. The concentration of the labour force had shifted towards both the secondary and tertiary sectors. Along with these changes, the stigma of attaching certain sub-sectors to a particular ethnic group had vanished. This period saw the increased presence of all ethnic groups in all sub-sectors.

### **8.11 Summary and conclusion**

During the 1980-2000 period Perak, in the context of national policies, adopted new approaches towards economic development compared to previous periods. The reliance on tin as a major revenue earner along with rubber had diminished. Diversification in the economy as a vehicle to achieve further progress was implemented from 1957 until 1980. However, the emphases in the post-1980 period included the secondary and service sectors. But, despite the careful planning for the reorganisation of state economic development via the introduction of the NEP, progress was not as encouraging as expected. In pursuit of the 'new' economy, the state began to focus on foreign capital. The state realised that to depend on limited local capital would only hinder economic development. The existence of a commendable inflow of foreign direct capital in the 1970s, without any effort by the state to promote it, encouraged the state to further intensify it. By 1980 and throughout the 1990s, encouragement of foreign direct investment became a priority.

The policy of promoting and encouraging foreign direct investment also requires an infrastructure for those investments. Although Perak was known for its good infrastructural facilities in the past, these needed upgrading and new ones developed to meet changing times and demand. Encouraging local investors to develop infrastructure

for industrial activities did not receive a favourable response. Development was therefore sluggish, and the state began to place more effort in its role as an investor and developer in establishing industrial estates. In addition, only in the mid-1980s did private investors begin to participate actively in establishing industrial estates, in partnership with state authorities and agencies. What was initially a state crusade had then become a joint effort in developing industrial infrastructure in Perak.

The role of the state as capitalist in Perak gradually emerged during the 1970s. The involvement, however, was limited to expediting the economic progress of the state as part of the NEP. Whilst the 1970s had seen the proliferation of state enterprises, the early 1980s saw even more. All these enterprises were established via the state investment arm either through the PSDC or SADC. However, by the end of 1980s the problems faced by these enterprises, mainly due to poor performance, forced the state to rationalise its involvement. The 80 enterprises at the height of the programme were reduced to only 32 enterprises by the end of 1989.

Privatisation became a significant element in economic development policy in Perak in the 1990s. Anchored by the state, it was through this mode that the state managed to leverage its resources and at the same time saw better economic progress. The state succeeded in shifting a major responsibility, particularly in fiscal terms, from the public to the private sector.

The process of transforming Perak from a resourced-based to an industrial-based economy was not however without problems. The mushrooming of industrial estates, for



example, saw the supply far exceeding the demand. Low sales of industrial lots, except in certain vicinities, and speculative buying by investors left the state with ample available infrastructure but without fully used industrial space. Although it was a difficult issue to address, surplus availability of industrial lots also meant that the state had failed to project, monitor, and control the development of industrial estates.

The strategy of accelerating development of the secondary sector also led to the shift from labour-intensive to capital- and technology-intensive types of activities. This was clearly evident during the 1980-2000 period. Although the state had spent a huge amount of funds in developing the infrastructure in this sector, industrial activities relied primarily on private investors. The capital needed for such activities tended to be large. Although local private capital had made a considerable contribution (about half the total investment in the state) during the 1980-2000 period, dependence on foreign capital remained an important issue. In addition, the evidence that only about 50% of the total proposed industrial investment actually took off required Perak to increase its efforts in meeting its objectives.

In tandem with the development of the secondary sector, the service sector followed suit. The state's focus in this sector was not only limited to supporting growth in the tertiary sector but also the expansion into health, tourism and education. Although extensive encouragement was given by the state to promote these sub-sectors, as far as implementation was concerned, it was primarily driven by private capital. By 2000, the success of these sub-sectors had yet to be realised, although progress was noticeable.

The strong efforts undertaken during the 1980-2000 period enabled the state to spread its revenue generation activities across a broader economic base. Along with economic diversification the labour patterns were transformed. A drastic decline in the primary sector and movement towards the secondary and tertiary sectors were evident. However, although the intention was to promote the secondary and tertiary sectors, it was never intended to neglect altogether the primary sector, particularly agriculture. But, as a result of the expansion of the secondary and tertiary sectors, the primary sector failed to attract new labour. At the same time the mismatch between labour skills and work opportunities available forced a small section of existing labour to migrate elsewhere. On the whole, the increase in population provided a sufficient supply of labour to the state. It was the failure to create enough jobs, partly as a result of the failure to implement all the proposed secondary and tertiary projects that created the excess labour in Perak.

In ethnic terms the changes in labour patterns are clear. The identification of agricultural activities with the Malays, businesses with the Chinese, and plantations and public works with the Indians had diminished considerably. In fact, this has been one of the major success stories of the state in restructuring the society so that the identification of 'race' with economic function has been reduced.

Finally, on examination of the post-independence period reveals that, although the involvement of the state (both federal and local) in economic development has assumed increasing importance, the modes of intervention have changed to meet changing national needs and to address changes in the world economy. To address the problems occasioned by uneven and unbalanced economic development during the colonial period, associated

in turn with ethnic differences, the post-colonial state, of necessity, intervened more decisively in economic affairs. It has achieved notable successes in promoting growth, diversification, modernisation and ethnic balance, but, as we have seen, its successes have been hampered with problems of reaching targets, coordinating the provision of industrial infrastructure and overcoming inbuilt bureaucratic obstacles.

## **CHAPTER 9**

### **SUMMARY AND CONCLUSION**

The present is the pinnacle of the on-going historical process. Therefore, my fundamental assertion is that each and every occurrence has its historical basis. This statement has been highlighted time and again by various scholars assessing diverse areas of enquiry. At the theoretical or conceptual level, one can trace the changes from one paradigm to another as failings and limitations are uncovered in the process of expounding social reality. This is illustrated in the movement away from the 'modernization' school that presumed a universal relevance for its perspectives to more critical approaches that have focused on the dynamics of specific conditions in the context of the historical expansion of market forces and wider societal processes. It is with this awareness and understanding of specific historical conditions and processes that I have sought to examine the economic transformation of Perak and to ascertain the underlying forces that have given the state its current economic form and structure.

My study of the economic transformation of Perak covering a period of approximately 200 years during three 'historical epochs' has provided the necessary time-frame to examine and understand the complexities of the economic processes in relation to state policies and practices and the impact of the global economy at the local level. Each historical epoch has its own characteristics which serve the material needs of the producers. In economic terms, the characteristics of each historical epoch that differentiate it from others include, among others, factors and means of production, forces of production, and the associated social relations governing the process of

production. I have concentrated on capital, land and labour in this thesis as elements which can be examined using the available historical, empirical and statistical materials.

The 19<sup>th</sup> century pre-colonial Malay state of Perak comprised a feudal socio-political structure. Exemplified by an abundance of land and relatively low population, the largely peasant economy was characterized by the dominance of use-value. Rice growing was undertaken mainly for home consumption. The predominantly Malay peasantry was also involved in growing other crops such as vegetables and fruits, fishing, and the collection of jungle produce for simple or limited exchange. Tools for agricultural production were relatively simple and the level of technology low. The material conditions of that historical epoch served the subsistence needs of the people. Taxes to the ruling class were made in kind. Production was not for profit. The commoditisation of rice cultivation only began during the colonial era. Its development altered significantly the basis of production for rice agriculture.

Apart from agricultural production Perak was also involved in trade. Trading, largely monopolised by members of the ruling class, was primarily geared to wealth accumulation to enhance status, prestige, and power. The Sultan, as the supreme head of state, along with the ruling elite accumulated wealth through taxes, trade, usury, and financing of small tin mines. It was trade that became the key feature that brought about change and economic growth for the state. Perak's involvement in the global economy was expedited through the founding of the Straits Settlements and the British acquisition of Melaka from the Dutch in 1824. The 19<sup>th</sup> century also witnessed the increasing

participation of production capital particularly from the Straits Settlements and the increasing significance of tin export production. Towards the latter half of the century Perak already had tin export capacity. Tin mining was carried out under the auspices of Malay territorial chiefs through Chinese immigrant labour with capital and new production technology from the Straits Settlements. Certainly, by 1874, the year of British intervention, the state already had export production in place.

Perak and, later, the other Malay states in the Peninsula, experienced massive social, political, and economic transformation under British colonial rule (1874-1957). Three major changes took place in Perak during the colonial era. The first was the clear distinction which was drawn between the ruler (Sultan) who became a symbolic figurehead, and the government in the state administration. Second, overriding prominence was given to a market-driven economy, and finally, the introduction and implementation of the colonial land system established land as a commodity. Further changes that took place in the state were either directly or indirectly related to these three major developments.

Under British rule, the subsistence economy of the peasantry was gradually modified to suit the economic structures of the new economic order governed by cash transactions and exchange. As part of the campaign to encourage native agricultural production, notably rice, a formidable range of policies, legislation and infrastructure was introduced. The colonial government's assistance, however, was quite limited and lagged far behind other economic sectors. Undoubtedly, its rice production policy was more strategic than

economic. It was colonial policy to preserve the status quo of the Malays in rice cultivation and to produce some, if not all of the state's staple food requirements. It was indeed difficult to justify the policy in economic terms since the return from an acre of rice had never been higher than an equivalent area under rubber. The interplay of these strategic and economic forces eventually impeded the economic modernisation of the Malays in the expanding market-driven economy.

The primary colonial objective in Perak remained the economic exploitation of tin and rubber. These two commodities were the major pillars that supported the expansion of the export economy. In tandem with the export sector was the development of the secondary and tertiary industries. A substantial amount of foreign and local capital was invested in tin mining and rubber plantations. Accompanying the rapid economic expansion was the establishment of infrastructures to facilitate the economic process. However, the total capital outlay in administration and infrastructures was relatively insignificant when evaluated against the profits earned and repatriated. Taking advantage of the opportunities created by the dynamic and expanding economy were the private enterprises that played a notable role in the continuous growth of the economy. In the period of more than eight decades of their rule British created the conditions and laid the foundations for a market-oriented economy to prosper. The new administrative structures, infrastructures, and the necessary factors of production were directed heavily to the exploitation of natural resources. Nevertheless, Perak realised considerable economic growth during colonial rule. This development was, however, uneven in scope and in its consequences. Colonial strategy was oriented to an extractive rather than a developmental

course of action. Limited attention was given to the development of heavy industries or domestic manufacturing. The much needed multiplier effect in economic development, therefore, was less obvious. Towards the end of colonial rule, tin and rubber began to lose their premier positions in the world economy due to stiff competition in the global market in terms of price and substitutes. Compounding the problem was the fast depleting tin reserves in the state. It was evident that the dependence on the two export commodities, limited industrial capacity, and an insufficient range of other economic activities constituted a predicament in terms of economic adaptability, ethnic segregation and regional inequalities. It was left to the state in independent Malaya to attempt to resolve the economic and social contradictions generated by the uneven nature of capitalist economic development.

The lowering of the Union Jack in 1957 marked the beginning of an independent Malaya. Apart from inheriting the colonial bureaucratic structures and its laws, the new state also inherited the accompanying social and economic problems created during colonial rule. The independent government's role in transforming the economic and social structures of the state was divided into two distinct phases. The first covers the period 1957-1969 while the second 1970-1980. The need to differentiate these two phases is due to the introduction of the New Economic Policy (NEP) in 1970 that altered the course and role of the state in managing the economy. During the first phase, the post-colonial government's economic policy was merely an extension of the British legacy. In the pre-1970 period, Perak assumed a broadly non-interventionist approach in the economy despite significant state involvement in improving the rural economy by way of land



development schemes. Rural development was the responsibility of the government while the modest industrial sector was fundamentally left in private hands. The state also began to move away from tin mining to focus its attention on local agriculture. The introduction of the NEP in 1970 dramatically altered the role of the state and the direction of the economy in the 1970-1980 period. The NEP, which came with the objective of redistributing economic wealth and opportunities to all ethnic groups, saw a significant increase in state intervention in the economy through direct participation in the form of capital provision, joint ventures, and the formation of state business enterprises.

The change in economic approach during the two phases was also expressed in changes in the industrialisation policies. Emphasis on ISI policies lasted only until the end of the first phase. Beginning in 1970 economic policy began to emphasize EOI initiatives which included the expansion of the secondary and tertiary sectors. Manufacturing became the prime mover of the economy. The growth of industrial estates and urban-based manufacturing was tied in with a major increase in rural-urban migration. In Perak, the failure to create sufficient jobs also led to the emigration of a sizeable number of workers in search of employment.

The two different economic approaches during the 23-year period (1957-1980), were also reflected in the investment climate in Perak. Even though the government was the largest investor in both phases, the state experienced an increase in private capital investment by local and foreign investors especially in the second phase. An improved distribution in terms of the spatial location of industrial investments was also realised. The rapid

decline in tin production in the 1970s confirmed the loss of eminence associated with the mineral. Value-adding initiatives in kaolin, limestone, granite, and clay were emphasized to offset some of the losses in revenue from tin. Priority was also given to manufacturing to absorb the labour made redundant by the tin industry.

The change in approach, in due course, had an impact on the growth of the industrial sector in Perak. However, the rather hasty and ill-conceived decisions in over-emphasizing industrial development in the former “tin districts” still led to an overly unbalanced development in that the former tin districts received the lion’s share of industrial projects in contrast to the rather limited initiatives carried out in non-tin areas. The development of industrial projects in the tin districts produced unexpected results. Apart from creating new opportunities for the ex-mining labour, the move also attracted new labour to these areas. In the move towards diversification the urban population was better placed to benefit during the initial shift towards the manufacturing economy.

The reverse fortune experienced in the rubber industry in relation to tin was due to smallholder involvement. The NEP-initiated rubber replanting schemes and the encouragement to increase rural income prevented an exodus of rural population to the urban areas. The ‘growth’ of rubber productivity was actually realised through a significant loss of acreage compensated for by higher yields. However, sustaining the largely Malay rural population into rubber cultivation constituted an ill-conceived policy when the private estate sector had long diversified into other crops particularly oil palm.

The state's success in crop diversification was achieved at the expense of the smallholders.

Perak's over dependence on the primary commodities (tin and rubber) taught her the bitter lesson of the vagaries and fluctuations of global market demands. During the 1980-2000 period Perak adopted new approaches towards economic development via the introduction of the NEP. Progress, however, was not encouraging. The injection of foreign capital became an objective. Dependence on limited local capital would only hinder economic development. Indeed, by 1980 and throughout the 1990s foreign capital investment became an economic priority. The promotion of foreign direct investment came with infrastructural costs in order to attract external capital. However, the response to infrastructural development by local investors was unfavourable. With pressure to make the direct foreign investment policy a success, the state took on the new role of investor and as the developer of industrial estates. Private sector involvement only began in the mid-1980s through partnership with state authorities and agencies. The state's role as capitalist did not end with joint ventures and partnerships with the private sector. The proliferation of state enterprises was highly visible in the 1980s. All these business enterprises were established via the state investment arms - the PSDC and SADC. However, the uninspiring performance of these enterprises towards the end of 1980s forced the state to rationalize its involvement. Operated by government bureaucrats, such a result is not unexpected. The state government was once again forced into looking for alternative approaches to economic development. In the 1990s, privatization became a significant element in state economic policy. It was through privatization that the state

managed to leverage its resources and succeeded in shifting a major fiscal responsibility from the public to the private sector.

The transformation of Perak from a resourced-based to an industrial-based economy has been littered with problems. The mushrooming of industrial estates created a situation of oversupply. Low sales of industrial lots and speculative buying by investors left the state with undersold and underutilised industrial space. The state had failed to project, monitor, and control the development of these industrial estates. The development of the secondary sector during the 1980-2000 period, which witnessed the shift from labour-intensive to capital- and technology-intensive activities was also problematical. Despite the massive injection of capital in infrastructural development, there has been continued reliance on private investors for industrial activities. Local private capital contributed about one-half the total investment in the state during the 1980-2000 period, and dependence on foreign capital remained an important issue. The picture confronting the service sector was no different. The state's promotion of the service sector generated only a lukewarm response from the private sector. Some progress however, was noticeable by 2000.

The broad-based revenue generating activities introduced by the state in the 1980-2000 period inevitably had an impact on the pattern of labour utilisation. The most obvious was the drastic decline in the labour force in the primary sector relative to the secondary and tertiary sectors. The expansion of the latter sectors was attributed to the failure of the former in attracting new labour. Added to the labour problem, albeit to a lesser degree,

was the mismatch between labour skills and available work opportunities in the state that have forced a segment of the labour force to migrate elsewhere in search of employment. Again, the failure of the state to implement all proposed projects in the secondary and tertiary sectors has led to the inability to create job opportunities. The ethnic dimension in the distribution of labour, however, provides us with a more satisfying picture. The stereotyping of Malays, Chinese, and Indians with agriculture, business, and public works and plantations respectively has diminished.

It is apparent that the state has played a critical role in shaping Perak in its economic endeavours. More specifically, there has been an increasing level of state intervention from the pre-colonial, through the colonial, to the post-colonial era. It is not an understatement to note that a massive transformation of the economy in Perak occurred during the colonial era. The British colonial administrators in their quest to extract valuable resources for the global market laid the foundations of a capitalist economy. The establishment of the bureaucratic structures and the implementation of the associated land laws created the necessary conditions for the market-driven economy to take a foothold and prosper. Economic development, however, was rather uneven at best. Economic underdevelopment, a severely underdeveloped peasantry, and deep ethnic cleavages along with the associated bureaucratic structures and laws were inherited by the post-colonial state. Untangling the economic and social complexities left behind by the colonial administrators saw a much higher degree of state intervention in the economy in the post-colonial period. Although the involvement of the state in economic and social development has assumed a more prominent role, the modes of intervention have

changed to meet the changing needs of the time and the global economy. One thing for sure is that the post-colonial state has intervened more decisively in economic affairs. The state now even plays the role of investor and capitalist. Specifically for Perak, the earnest drive of the state in promoting economic growth has certainly not been without its difficulties. Among others, problems encountered by the state include the failure to meet targets, lack of coordination in the provision of industrial infrastructures, and inbuilt bureaucratic obstacles. The state had and will continue to exercise its role in economic development. It is difficult to imagine how Perak would have moved beyond its colonial economy without the involvement of the state in mobilising resources and redirecting economic activity. Nevertheless, the state's performance will inevitably rely on the rather delicate balancing act between meeting domestic socio-political and economic demands and those of the capricious global market.

In this thesis I have attempted to capture economic patterns, trends and processes by piecing together the available statistical and historical materials. In my view, this is the first study which has addressed the broad sweep of Perak's economic history from the pre-colonial to the post-colonial period. Fortunately access to Malaysian government and other documents has enabled me to relate recent developments to the past. I recognise that more could have been done in exploring archival materials and in undertaking case-study work on current economic activities. One major task for the future is to deepen my more macro-economic examination of the post-1980 period by gathering case-study information on industrial estates and companies, private investment patterns and specific state-sponsored and organised ventures. This will assist us in future attempts to chart the

economic development and progress of Perak beyond 2000 and into the first decades of the twenty-first century.

# Appendix 1 Perak: Estates in 1897

District	Name of estate/proprietor	Acreage
Kinta	C.G.Ogilvie	114
	-do-	107
	W. Smith	539
	-do-	455
	Shak Yin Fook & Su Kwong	125
	C.R. Ephraums & J.R. Cawford	139
	F.D. Osborne	320
	F.J.B. Dykes & Leong Fui	337
	Eng Hong Estate	191
Matang	Suy Yi Hak Estate	717
	Royalla Estate	640
	Jebong Estate	640
	Simpang Estate	643
	Kampong Dew Estate	640
	Sin Sun Hin Estate	1,000
	Gula Estate	2,812
Kuala Kangsar	Waterloo Estate (old)	230
	Waterloo Estate (new)	3,063
	Heywood Estate	462
	Heywood Estate (extension)	1,920
	Gapis Estate	1,775
	Plang Estate	440
	Kati Estate	314
	Chuor Estate	225
	Kamuning Estate	9,986
	Sungei Siput Estate	546
	G. Elphinstone	1,000
	G. Brown	1,000
Krian	Sin Kong Hong Estate	832
	Sin Thye Seng Estate	832
	Lean Seng Huat Estate	508
	Tan Kang Hok	250
	Seng Guan Estate	1,520
	F. Pulsford	280
	Ko Huat Estate	2,119
	Sin Ju Seng Estate	278
	Kui Heng Estate	334
	Sin Ju Seng Estate	413
	Qui Moh Estate	156
	Sin Ju Seng Estate	590



**Appendix 1 Perak: Estates in 1897 (continue)**

<b>District</b>	<b>Name of estate/proprietor</b>	<b>Acreage</b>
Krian (continue)	Guan Seng Estate	358
	Sin Joo Seng Estate	1,531
	Sin Seng Heng Estate	345
	Cheang Hang Estate	296
	Sin Soon Heng Estate	530
	Sing Seng Huat Estate	770
	Sin Kong Watt Estate	362
	Kwang Huat Estate	553
	Kwang Seng Estate	380
	Hong Ju Estate	425
	Sin Thye Lee Estate	945
	Wong Ah Kong	800
	Ban Hok Heng Estate	976
	Jui Heng Estate	3,232
	Hie Kee Estate	385
	Heng Aik Heng Estate	787
	Seng Yik Estate	316
	Jin Seng Estate	388
	Sin Thye Lee Estate	122
	The Perak Sugar Cultivation Co.	8,554
	E.H. Bratt	177
	W.H. Tate	326
	Kwang Lee Estate	500
Lower Perak	Cecily Estate	600
	Lim Kong Teow	250
Batang Padang	Mssrs. Baldwin & Ford	1,000
	Kong Kut Chong	150
	Mr. Tait	640
	Mr. Donald	640
Larut	W.H. Tate	150
	Yam Seng Estate	959
	Grove Estate	641
	T.P. Pethaperumal Chetty	250
	Chan Sup Khoon	250
	Lee Chin Ho	250
	H.H. the Sultan	1,000

Source: *Perak Government Gazette 1898*, Vol. XI, Taiping: Perak Government Printing Office, pp.434-5.

Note: Areas have been rounded to the nearest acre.

## Appendix 2 Perak: Arrivals and departures 1880-1902

Year	Arrival	Departure	Net
1880	27,338	15,969	11,369
1881	32,054	23,952	8,102
1882	45,934	32,854	13,080
1883	50,153	37,941	12,212
1884	44,583	42,440	2,143
1885	49,395	41,665	7,730
1886	54,168	37,961	16,207
1887	63,312	38,391	24,921
1888	81,690	52,561	29,129
1889	72,025	58,952	13,073
1890	67,637	62,188	5,449
1891	64,293	52,417	11,876
1892	76,422	54,859	21,563
1893	93,960	61,316	32,644
1894	71,731	57,262	14,469
1895	78,652	62,688	15,964
1896	61,090	60,078	1,012
1897	50,644	52,975	-2,331
1898	49,694	47,996	1,698
1899	75,139	49,478	25,661
1900	94,728	62,904	31,824
1901	146,536	112,680	33,856
1902	278,483	247,987	30,496

Sources: *PGG 1889*, p.393; *PGG 1890*, p.498, *PGG 1891*, p.513; *PGG 1892*, p.459; *PGG 1893*, p.447; *PGG 1894*, p.314; *PGG 1895*, p.365; *PGG 1896*, p.525; *PGG 1897*, p.662; *PGG 1898*, p.455; *PGG 1899*, App. L, p.62; *PGG 1900*, App. L, p. 59; *PGG 1901*, App. L, p.63; *PGG 1902*, App. L, p.50; *PGG 1903*, App. L, p.50.

Appendix 3 Perak: Arrivals and departures 1888-1902 by ethnic group

Year	Arrivals					Departures				
	European	Chinese	Malays	Indians	Total	European	Chinese	Malays	Indians	Total
1888	846	64,958	8,588	7,298	81,690	697	39,321	6,513	6,030	52,561
1889	778	40,842	8,929	8,531	59,080	687	34,514	7,348	7,214	49,763
1890	1,108	43,767	11,345	11,417	67,637	933	38,553	12,021	10,681	62,188
1891	1,066	40,484	10,468	12,275	64,293	891	32,039	9,573	9,914	52,417
1892	1,021	51,321	12,153	11,927	76,422	940	33,081	10,416	10,422	54,859
1893	992	68,785	12,739	11,444	93,960	892	38,946	11,047	10,431	61,316
1894	711	49,387	11,552	10,081	71,731	643	37,044	10,258	9,317	57,262
1895	650	55,980	12,014	10,008	78,652	625	40,087	11,975	10,000	62,687
1896	685	40,627	9,991	9,787	61,090	613	39,355	10,814	9,296	60,078
1897	1,491	32,095	8,950	8,108	50,644	1,384	33,152	9,710	8,729	52,975
1898	1,411	31,898	8,211	8,174	49,694	1,164	30,418	8,731	7,683	47,996
1899	1,528	54,663	8,582	10,366	75,139	1,338	32,619	8,084	7,437	49,478
1900	1,796	68,672	10,050	14,210	94,728	1,563	42,310	9,706	9,325	62,904
1901	2,173	83,233	41,090	20,040	146,536	1,828	57,719	36,391	16,742	112,680
1902	3,237	177,287	65,515	32,444	278,483	2,936	152,010	65,190	27,851	247,987

Sources: *PGG 1889*, p.393; *PGG 1890*, p.498; *PGG 1891*, p.513; *PGG 1892*, p.459; *PGG 1893*, p.447; *PGG 1894*, p.314; *PGG 1895*, p.365; *PGG 1896*, p.525; *PGG 1897*, p.662; *PGG 1898*, p.455; *PGG 1899*, App. L, p.62; *PGG 1900*, App. L, p.59; *PGG 1901*, App. L, p.63; *PGG 1902*, App. L, p.50; *PGG 1903*, App. L, p.50.

#### Appendix 4 Perak: Revenues and Expenditures 1875 -1919

Year	Revenue (\$)	Expenditure (\$)	Surplus/Deficit (\$)
1875	226,233	256,831	-30,598
1876	273,043	289,476	-16,433
1877	312,872	292,711	20,161
1878	322,608	291,473	31,135
1879	388,372	369,707	18,655
1880	582,496	521,995	60,501
1881	692,861	652,938	39,923
1882	905,385	918,914	-13,529
1883	1,474,330	1,350,610	123,720
1884	1,532,497	1,481,470	51,027
1885	1,522,084	1,316,625	205,459
1886	1,688,276	1,465,325	222,951
1887	1,827,476	1,550,489	276,987
1888	2,016,240	1,709,260	306,980
1889	2,776,583	2,090,116	686,467
1890	2,504,116	2,555,793	-51,677
1891	2,324,981	3,146,129	-821,148
1892	2,689,565	3,094,855	-405,290
1893	3,034,093	3,401,086	-366,993
1894	3,542,114	3,587,224	-45,110
1895	4,033,611	3,757,007	276,604
1896	3,960,871	3,989,376	-28,505
1897	3,837,558	4,178,238	-340,680
1898	4,575,842	5,560,529	-984,687
1899	6,580,305	5,441,691	1,138,614
1900	7,636,126	6,144,774	1,491,352
1901	8,532,594	8,882,578	-349,984
1902	10,320,774	8,040,697	2,280,077
1903	11,667,322	8,082,582	3,584,740
1904	11,322,272	9,630,326	1,691,946
1905	12,242,896	10,141,978	2,100,918
1906	14,282,484	8,776,477	5,506,007
1914	19,338,374	28,361,921	-9,023,547
1915	20,984,824	21,732,145	-747,321
1916	26,094,850	16,126,869	9,967,981
1917	31,923,826	19,897,021	12,026,805
1918	35,175,037	22,725,153	12,449,884
1919	36,181,719	35,333,802	847,917

Sources: *PGG 1889*, p.388; *PGG 1890*, pp.473-4; *PGG 1894*, p.325-6; *PGG 1895*, pp.377-8; *PGG 1896*, pp.499-500; *PGG 1907* (supplement), Appendix H, pp.xx; *Perak: Estimates of Revenues and Expenditures*, years 1916-1921.

## Appendix 5 Perak: Import and export 1876-1905

Year	Export (\$)	Import (\$)	Difference (\$)
1876	739,972	831,375	-91,403
1877	1,075,423	965,894	109,529
1878	1,256,163	1,311,140	-54,977
1879	1,465,547	1,781,980	-316,433
1880	1,906,952	2,231,048	-324,096
1881	2,566,592	2,936,893	-370,301
1882	3,267,907	3,866,425	-598,518
1883	5,164,311	4,772,332	391,979
1884	5,393,996	6,047,694	-653,698
1885	6,569,466	5,811,605	757,861
1886	8,674,032	5,586,563	3,087,469
1887	12,249,334	6,951,963	5,297,371
1888	11,799,653	7,998,364	3,801,289
1889	10,812,673	7,048,046	3,764,627
1890	9,985,713	7,173,617	2,812,096
1891	10,655,332	7,913,357	2,741,975
1892	12,387,024	9,628,051	2,758,973
1893	14,499,475	10,188,448	4,311,027
1894	17,184,836	9,262,396	7,922,440
1895	15,596,225	9,581,372	6,014,853
1896	14,289,680	8,713,940	5,575,740
1897	14,442,428	10,075,969	4,366,459
1898	16,702,278	10,769,096	5,933,182
1899	25,707,050	11,615,260	14,091,790
1900	29,190,663	14,741,148	14,449,515
1901	28,264,584	16,219,191	12,045,393
1902	35,295,949	17,106,559	18,189,390
1903	40,041,988	21,170,577	18,871,411
1904	38,228,307	19,866,188	18,362,119
1905	41,187,506	20,153,242	21,034,264

Sources: *PGG 1897*, Appendix M, p.663; *PGG 1903*, Appendix M, p.51; *PGG 1907* (supplement), Appendix H, p.xx.

## Appendix 6 European Registered Rubber Companies Operating in Perak in 1957

1. Aberfoyle Plantations Ltd.
2. Allagar Rubber Plantations, Ltd.
3. Alor Pongsu Amalgamated Estates Ltd.
4. Amalgamated Bruas Rubber Estates Ltd.
5. Bagan Serai Rubber Estates Ltd.
6. Banir Rubber Estates Ltd.
7. Batu Matang Rubber Plantations (1932) Ltd.
8. Bernam-Perak Rubber Plantations, Ltd.
9. Bidor Rubber Estate Ltd.
10. Bruas-Perak Rubber Estate Ltd.
11. Bruseh Rubber Estates Ltd.
12. Central Perak Rubber Co. Ltd.
13. Changkat Salak Rubber and Tin Ltd.
14. Chersonese (F.M.S) Estates Ltd.
15. Cicely Rubber Estates Co. Ltd.
16. Dennistown Rubber Estates Ltd.
17. Dindings Rubber Estates Ltd.
18. Eow Seng Rubber Co. Ltd.
19. Escot Rubber Estates Ltd.
20. Gedong (Perak) Rubber Estate Ltd.
21. Golden Hope Rubber Estate Ltd.
22. Gopeng (Perak) Rubber Ltd.
23. Gula-Kalumpong Rubber Estates Ltd.
24. Heawood Tin And Rubber Estate Ltd.
25. Holyrood Rubber Ltd.
26. Ipoh Rubber Estates Ltd.
27. Jong-Landor Rubber Estates Ltd.
28. Kamuning (Perak) Rubber And Tin Co. Ltd.
29. Kinta Kellas Rubber Estates Ltd.
30. Klabang Rubber Co. Ltd.
31. Krian Rubber Plantations Co. Ltd.
32. Kuala Kangsar Plantations Ltd.
33. Lanadron Rubber Estates, Ltd.
34. London Asiatic Rubber & Produce Co. Ltd.
35. Lower Perak Rubber Estates Ltd.
36. Malay Rubber Planters Ltd.
37. Malaysia Rubber Co. Ltd.
38. Narborough (F.M.S) Rubber Estate Ltd.
39. New Columbia Rubber Co. Ltd.
40. North Malay Rubber Estates Ltd.
41. Padang Senang Rubber Ltd.
42. Parit-Bruas (Malay) Rubber Co. Ltd.
43. Pataling Rubber Estates Ltd.
44. Perak Rubber Plantations Ltd.
45. Prang Besar Rubber Estate Ltd.
46. Pusing Rubber And Tin Ltd.
47. Rambutan Rubber Estates Ltd.
48. Ratanui Rubber Ltd.
49. Riverview Rubber Estates Ltd.
50. Rubana Rubber Estates Ltd.
51. Sabrang Rubber Estate Ltd.
52. Seafield Rubber Co. Ltd.
53. Segari Rubber Ltd.
54. Sengat Rubber Estate Ltd.
55. Shelford Rubber Estate Ltd.
56. Sogomana Rubber Estate Ltd.
57. South Perak Rubber Syndicate Ltd.
58. Straits Rubber Co. Ltd.
59. Strathisla (Perak) Rubber Estates Ltd.
60. Sungei Chinoh Rubber Co. Ltd.
61. Sungei Krian Rubber Estate Ltd.
62. Sungei Kruit Rubber Estate Ltd.
63. Sungei Matang Rubber Estate Ltd.
64. Sungei Siput Rubber Plantations Ltd.
65. Sungei-Timah Estate (Perak) Ltd.
66. Taiping Rubber Plantations Ltd.
67. Tali Ayer Rubber Estates Ltd.
68. Trolak Estates Ltd.
69. Windsor (F.M.S) Rubber Estate Ltd.
70. Yam Seng Rubber Co. Ltd.

Source: Collated from Zorn & Leigh-Hunt (comp.)(1957). *Manual of Rubber Planting Companies*, London: Zorn & Leigh-Hunt.

- Notes:
1. The European companies listed above are limited to those registered in England and Scotland only.
  2. During the colonial period many other European companies operating in Perak had either changed hands or ceased to exist through acquisition, sale, merger or by voluntary liquidation. For comprehensive details, see source above.
  3. Some of the companies listed above also had operations in states outside Perak.

**Appendix 7 Perak: Labour force distribution by sector and ethnic group, 1947-2000**

Sector	1947				1957				1970			
	Bumiputera	Chinese	Indian	Others	Bumiputera	Chinese	Indian	Others	Bumiputera	Chinese	Indian	Others
<b>Primary</b>												
Agriculture, forestry, hunting and fishing	79,197	101,862	50,041	n.a	108,860	86,585	44,319	1,382	130,011	81,146	35,054	607
Mining and quarrying	75,941	81,388	46,879	n.a	105,008	64,168	40,941	775	125,160	57,647	32,510	483
	3,256	20,274	3,162	n.a	3,852	22,417	3,378	607	4,851	23,499	2,544	124
<b>Secondary</b>												
Manufacturing	203	5,972	533	n.a	6,396	29,679	9,748	445	7,237	38,492	3,019	69
Construction	203	5,972	533	n.a	2,987	22,597	6,774	246	6,345	30,877	2,360	60
	n.a	n.a	n.a	n.a	7,082	7,082	2,974	199	892	7,615	659	9
<b>Tertiary</b>												
Utilities												
Wholesale and retail trade, and restaurants and hotels	n.a	n.a	n.a	n.a	29,485	56,721	21,993	7,007	40,407	75,950	23,660	682
					800	778	1,298	156	1,555	1,008	1,654	50
Transport, storage and communication	n.a	n.a	n.a	n.a	3,863	26,349	5,828	468	6,254	32,314	5,071	105
Finance, insurance, real estate and business services	n.a	n.a	n.a	n.a	2,267	5,194	2,576	335	3,364	6,366	2,425	38
Community, social and personal services	n.a	n.a	n.a	n.a	36	678	563	37	475	1,774	675	30
Others (inadequately described or unknown)	n.a	n.a	n.a	n.a	22,519	23,722	11,728	6,011	28,759	34,488	13,835	459
	n.a	n.a	n.a	n.a	4,848	5,258	2,118	122	8,736	6,494	2,640	32
<b>Total</b>					149,589	178,243	78,178	8,956	186,391	202,082	64,373	1,390

Sector	1980				1991				2000			
	Bumiputera	Chinese	Indian	Others	Bumiputera	Chinese	Indian	Others	Bumiputera	Chinese	Indian	Others
<b>Primary</b>												
Agriculture, forestry, hunting and fishing	135,793	66,771	38,164	623	76,426	33,981	23,150	8,822	54,384	25,204	13,016	427
Mining and quarrying	128,823	50,674	35,277	523	74,418	32,068	22,328	8,512	53,294	24,366	12,543	411
	6,970	16,097	2,887	100	2,008	1,913	822	110	1,090	838	473	16
<b>Secondary</b>												
Manufacturing	23,716	58,267	12,655	162	48,663	58,222	24,997	2,327	84,087	67,265	33,384	389
Construction	19,181	38,738	9,800	116	41,212	36,490	21,133	1,831	70,758	39,875	27,804	202
	4,535	19,529	2,855	46	7,451	21,732	3,864	696	13,329	27,390	5,580	187
<b>Tertiary</b>												
Utilities	82,725	99,496	29,750	619	130,186	100,658	33,795	4,478	188,954	116,627	41,534	803
Wholesale and retail trade, and restaurants and hotels	693	497	513	16	3,195	715	1,126	73	3,156	791	821	10
Transport, storage and communication	14,148	50,366	7,589	153	21,692	49,691	8,383	1,125	37,000	67,103	12,514	266
Finance, insurance, real estate and business services	4,927	10,226	3,549	18	6,706	9,146	5,105	237	13,795	11,555	8,317	35
Community, social and personal services	2,193	4,082	1,322	39	4,478	6,118	1,727	101	9,001	11,494	3,128	61
Others (inadequately described or unknown)	60,764	34,325	16,777	393	94,115	34,988	17,454	2,942	106,002	25,684	16,754	431
	8,816	11,043	3,223	52	6,499	16,270	3,714	278	11,904	6,375	3,422	36
<b>Total</b>	251,050	235,577	83,792	1,456	261,774	209,131	85,656	15,705	319,329	215,471	91,356	1,655

Sources: Del Tufo, M. V. (1949). *Malaya: A Report on the 1947 Census of Population*, Government of the Federation of Malaya, pp.456, 448, 460; Department of Statistics, Malaya (1953b). *Population Census 1957: State of Perak*, Report No.8, Kuala Lumpur, pp.59-63; Department of Statistics, Malaysia (1975b). *1970 Population and Housing Census of Malaysia*, Kuala Lumpur, pp.256-259; Department of Statistics, Malaysia (1984). *1980 Population and Housing Census of Malaysia*, Kuala Lumpur, p.436; Department of Statistics, Malaysia (1995). *Population Report for Administrative Districts 1991: Occupation and Industry*, Kuala Lumpur, pp.352-353; Department of Statistics, Malaysia (2003). *Population and Housing Census of Malaysia 2000*, Kuala Lumpur, 294-309.

# Appendix 8 Perak: Total revenues and expenditures 1957-2000 (in RM million)

Year	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
State revenue	22.37	25.87	25.98	28.50	29.43	33.53	30.57	28.87	32.58	37.42	40.38	41.24
Federal grants	38.28	11.19	13.24	13.01	19.43	14.57	14.88	16.88	19.98	20.15	20.08	19.88
Total revenue	60.65	37.06	39.22	41.51	48.86	48.10	45.45	45.75	52.56	57.57	60.46	61.12
Total expenses	63.46	42.07	37.37	41.92	49.59	52.12	46.71	48.51	48.88	61.23	58.97	65.43
Surplus/deficit	-2.81	-5.01	1.84	-0.41	-0.73	-4.01	-1.26	-2.76	3.68	-3.66	1.49	-4.31

Year	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
State revenue	n.a	48.74	50.74	59.00	67.83	73.61	71.27	77.80	103.05	85.34	102.12	109.96
Federal grants	n.a	20.58	22.57	27.71	32.67	26.63	31.31	45.16	45.41	42.48	64.46	93.19
Total revenue	n.a	69.32	73.31	86.71	100.50	100.24	102.58	122.96	148.46	127.82	166.58	203.15
Total expenses	n.a	66.85	73.41	77.62	98.60	114.32	118.66	115.59	151.78	123.08	147.49	188.08
Surplus/deficit	n.a	2.47	-0.99	9.09	1.90	-14.08	-16.08	7.37	-3.32	4.74	19.09	16.07

Year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
State revenue	126.88	110.53	124.54	146.50	156.31	143.36	n.a	135.23	174.56	183.43	173.09	192.46
Federal grants	114.61	98.03	100.03	62.64	34.90	51.07	n.a	65.74	39.74	72.01	83.98	83.28
Total revenue	241.49	208.56	224.57	209.14	191.21	194.43	n.a	200.97	214.30	255.44	257.07	275.74
Total expenses	224.49	215.62	214.46	259.91	205.74	181.38	n.a	153.82	175.61	214.41	319.52	274.31
Surplus/deficit	17.00	-7.06	10.11	-50.77	-14.53	13.05	n.a	47.15	38.69	41.03	-62.45	1.43

Year	1993	1994	1995	1996	1997	1998	1999	2000
State revenue	190.67	225.12	392.74	365.01	459.52	358.15	339.43	326.53
Federal grants	101.90	39.09	61.91	113.04	96.12	102.50	64.80	76.51
Total revenue	292.57	264.21	454.65	478.05	555.64	460.65	404.23	403.04
Total expenses	387.87	308.75	406.01	385.36	441.13	363.83	390.07	440.62
Surplus/deficit	-95.30	-44.54	48.64	92.69	114.51	96.82	14.16	-37.58

Sources: Collated from Federation of Malaya: State of Perak. *Estimates of the Revenue and Expenditure*, 1959-1963; Malaysia: State of Perak. *Estimates of Revenue and Expenditure*, 1964-2001.  
Note: n.a - not available.



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